

Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
May 13, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003  
-----

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-9496  
-----

BNP RESIDENTIAL PROPERTIES, INC.  
(Exact name of Registrant as specified in its charter)

|                                                                 |                                         |
|-----------------------------------------------------------------|-----------------------------------------|
| Maryland<br>-----                                               | 56-1574675<br>-----                     |
| State or other jurisdiction of<br>incorporation or organization | (I.R.S. Employer<br>Identification No.) |

301 S. College Street, Suite 3850, Charlotte, NC 28202-6024  
-----  
(Address of principal executive offices) (Zip Code)

704/944-0100  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of May 5, 2003 (the latest practicable date).

|                                        |                    |
|----------------------------------------|--------------------|
| Common Stock, \$.01 par value<br>----- | 5,848,652<br>----- |
| (Class)                                | (Number of shares) |

TABLE OF CONTENTS

| Item No. |                                                                                       | Page No. |
|----------|---------------------------------------------------------------------------------------|----------|
|          | PART I - Financial Information                                                        |          |
| 1        | Financial Statements                                                                  | 3        |
| 2        | Management's Discussion and Analysis of Financial Condition and Results of Operations | 10       |
| 3        | Quantitative and Qualitative Disclosures About Market Risk                            | 20       |
| 4        | Controls and Procedures                                                               | 20       |
|          | PART II - Other Information                                                           |          |
| 6        | Exhibits and Reports on Form 8-K                                                      | 20       |

PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Balance Sheets

|                                                            | March 31<br>2003 | Dece<br>2 |
|------------------------------------------------------------|------------------|-----------|
|                                                            | (Unaudited)      |           |
| Assets                                                     |                  |           |
| Real estate investments at cost:                           |                  |           |
| Apartment properties                                       | \$282,065,826    | \$27      |
| Restaurant properties                                      | 38,335,989       | 3         |
|                                                            | 320,401,815      | 31        |
| Less accumulated depreciation                              | (51,525,579)     | (4        |
|                                                            | 268,876,236      | 26        |
| Cash and cash equivalents                                  | 413,784          |           |
| Other current assets                                       | 3,986,590        |           |
| Notes receivable, net of reserve                           | 100,000          |           |
| Intangible assets, net of accumulated amortization:        |                  |           |
| Intangible related to acquisition of management operations | 1,115,088        |           |
| Deferred financing costs                                   | 1,195,607        |           |
| Total assets                                               | \$275,687,305    | \$27      |

# Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

|                                                                                                                                                                    |               |               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Liabilities and Shareholders' Equity                                                                                                                               |               |               |
| Deed of trust and other notes payable                                                                                                                              | \$216,719,555 | \$216,719,555 |
| Accounts payable and accrued expenses                                                                                                                              | 1,876,298     | 1,876,298     |
| Deferred revenue and security deposits                                                                                                                             | 1,297,463     | 1,297,463     |
| Deferred credit for defeasance of interest,<br>net of accumulated amortization                                                                                     | 291,712       | 291,712       |
| Total liabilities                                                                                                                                                  | 220,185,028   | 220,185,028   |
| Minority interest in Operating Partnership                                                                                                                         | 17,491,876    | 17,491,876    |
| Shareholders' equity:                                                                                                                                              |               |               |
| Preferred stock, \$.01 par value, 10,000,000 shares<br>authorized; issued and outstanding shares--<br>454,545 at March 31, 2003, and December 31, 2002             | 5,000,000     | 5,000,000     |
| Common stock, \$.01 par value, 100,000,000 shares<br>authorized; issued and outstanding shares--<br>5,848,652 at March 31, 2003,<br>5,831,077 at December 31, 2002 | 58,487        | 58,487        |
| Additional paid-in capital                                                                                                                                         | 70,901,667    | 70,901,667    |
| Dividend distributions in excess of net income                                                                                                                     | (37,949,753)  | (37,949,753)  |
| Total shareholders' equity                                                                                                                                         | 38,010,401    | 38,010,401    |
| Total liabilities and shareholders' equity                                                                                                                         | \$275,687,305 | \$275,687,305 |

3

## BNP RESIDENTIAL PROPERTIES, INC.

### Consolidated Statements of Operations (Unaudited)

|                                        |                                        |  |
|----------------------------------------|----------------------------------------|--|
|                                        | Three months ended<br>March 31<br>2003 |  |
| Revenues                               |                                        |  |
| Apartment rental income                | \$ 8,886,284                           |  |
| Restaurant rental income               | 999,326                                |  |
| Management fee income                  | 227,360                                |  |
| Interest and other income              | 129,810                                |  |
|                                        | 10,242,780                             |  |
| Expenses                               |                                        |  |
| Apartment operations                   | 3,473,897                              |  |
| Apartment administration               | 327,060                                |  |
| Corporate administration               | 687,065                                |  |
| Depreciation                           | 2,333,318                              |  |
| Amortization of deferred<br>loan costs | 72,971                                 |  |

# Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

|                                                       |            |
|-------------------------------------------------------|------------|
| Interest                                              | 3,196,056  |
| Write-off of unamortized loan costs at debt refinance | -          |
|                                                       | 10,090,367 |
| Income before minority interest                       | 152,413    |
| Minority interest in Operating Partnership            | 6,623      |
| Net income                                            | 145,790    |
| Cumulative preferred dividend                         | 125,000    |
| Income available to common shareholders               | \$ 20,790  |
| Per share amounts:                                    |            |
| Basic earnings per share -                            |            |
| Net income                                            | \$0.02     |
| Income available to common shareholders               | 0.00       |
| Diluted earnings per share -                          |            |
| Net income                                            | 0.02       |
| Income available to common shareholders               | 0.00       |
| Dividends declared                                    | 0.25       |
| Weighted average common shares outstanding            | 5,839,474  |

4

## BNP RESIDENTIAL PROPERTIES, INC.

### Consolidated Statement of Shareholders' Equity (Unaudited)

|                            | Preferred Stock |             | Common Stock |          | Additional      | Divid                   |
|----------------------------|-----------------|-------------|--------------|----------|-----------------|-------------------------|
|                            | Shares          | Amount      | Shares       | Amount   | paid-in capital | distribu in exce net in |
| Balance December 31, 2002  | 454,545         | \$5,000,000 | 5,831,077    | \$58,311 | \$70,724,671    | \$ (36,511              |
| Common stock issued        | -               | -           | 17,575       | 176      | 176,996         |                         |
| Dividends paid - preferred | -               | -           | -            | -        | -               | (126                    |
| Dividends paid - common    | -               | -           | -            | -        | -               | (1,457                  |
| Net income                 | -               | -           | -            | -        | -               | 145                     |
| Balance March 31, 2003     | 454,545         | \$5,000,000 | 5,848,652    | \$58,487 | \$70,901,667    | \$ (37,949              |

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows  
(Unaudited)

|                                                                            | Three months ended<br>March 31<br>2003 |      |
|----------------------------------------------------------------------------|----------------------------------------|------|
|                                                                            |                                        | (Re) |
| Operating activities:                                                      |                                        |      |
| Net income                                                                 | \$ 145,790                             | \$   |
| Adjustments to reconcile net income to<br>net cash provided by operations: |                                        |      |
| Minority interest in Operating Partnership                                 | 6,623                                  |      |
| Depreciation and amortization of loan costs                                | 2,406,289                              |      |
| Write-off of unamortized loan costs<br>at debt refinance                   | -                                      |      |
| Amortization of defeasance credit                                          | (41,664)                               |      |
| Changes in operating assets and liabilities:                               |                                        |      |
| Prepaid expenses and other current assets                                  | (840,691)                              |      |
| Accounts payable and accrued expenses                                      | 584,433                                |      |
| Deferred revenue and security deposits                                     | (41,215)                               |      |
| Net cash provided by operating activities                                  | 2,219,565                              |      |
| Investing activities:                                                      |                                        |      |
| Acquisition of apartment property                                          | (5,697,761)                            |      |
| Additions to apartment properties, net                                     | (752,958)                              |      |
| Sale of restaurant property                                                | 587,761                                |      |
| Net cash used in investing activities                                      | (5,862,958)                            |      |
| Financing activities:                                                      |                                        |      |
| Costs of issuance of preferred stock                                       | -                                      |      |
| Issuance of common stock                                                   | 177,172                                |      |
| Distributions to Operating Partnership minority unitholders                | (462,240)                              |      |
| Dividends paid to preferred shareholder                                    | (126,027)                              |      |
| Dividends paid to common shareholders                                      | (1,457,770)                            |      |
| Proceeds from notes payable                                                | 6,666,945                              |      |
| Principal payments on notes payable                                        | (1,532,325)                            |      |
| Payment of deferred financing costs                                        | (92,894)                               |      |
| Net cash provided by (used in) financing activities                        | 3,172,861                              |      |
| Net decrease in cash and cash equivalents                                  | (470,532)                              |      |
| Cash and cash equivalents at beginning of period                           | 884,316                                |      |
| Cash and cash equivalents at end of period                                 | \$ 413,784                             | \$   |

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

BNP RESIDENTIAL PROPERTIES, INC.

-----  
Notes to Consolidated Financial Statements - March 31, 2003  
(Unaudited)

### Note 1. Interim financial statements

Our independent accountants have not audited the accompanying financial statements of BNP Residential Properties, Inc., except for the balance sheet at December 31, 2002. We derived the amounts in the balance sheet at December 31, 2002, from the financial statements included in our 2002 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. You should read these financial statements in conjunction with our 2002 Annual Report on Form 10-K.

### Note 2. Basis of Presentation

The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "Operating Partnership"). The company is the general partner and owns a majority interest in the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

#### Stock-Based Compensation

The company has one employee Stock Option and Incentive Plan in place. We account for this plan using the intrinsic value method, under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, the effect would have been to reduce net income as reported by approximately \$240 in 2003 and \$1,250 in 2002, with no impact on basic and diluted earnings per share amounts as reported.

#### Reclassifications

We adopted Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections," effective January 1, 2003. Statement 145 generally requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under Statement 4. We have reclassified the extraordinary item for loss on early extinguishment of debt in the first quarter of 2002 to conform to Statement 145. While adoption of Statement 145 has no impact on net income, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. We have adjusted the 2002 comparative amounts in our consolidated financial statements to conform to the 2003 presentation as follows:

Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

|                                                              | 2002 as<br>Currently<br>Presented | Adjustments | 2<br>Pr<br>R |
|--------------------------------------------------------------|-----------------------------------|-------------|--------------|
| Three months ended March 31, 2002                            |                                   |             |              |
| Revenues                                                     | \$8,826,002                       | \$ -        |              |
| Expenses                                                     | 8,205,592                         | 95,032      |              |
| Income before minority interest and<br>extraordinary item    | 620,410                           | (95,032)    |              |
| Minority interest in Operating Partnership                   | 127,835                           | (21,735)    |              |
| Income before extraordinary item                             | 492,575                           | (73,297)    |              |
| Extraordinary item - loss on early<br>extinguishment of debt | -                                 | (73,297)    |              |
| Net income                                                   | \$ 492,575                        | \$ -        |              |

Note 3. Apartment property acquisition

Effective March 13, 2003, we acquired The Place Apartments for a contract price of \$5.6 million, paid in cash. Through March 31, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000.

We funded this acquisition by the placement of a \$4.56 million first deed of trust loan and draws on our existing line of credit.

Note 4. Shareholders' Equity

In February 2003, we issued 17,575 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$177,000.

We calculated basic and diluted earnings per common share using the following amounts:

|                                             | Three months ended<br>March 31 |            |
|---------------------------------------------|--------------------------------|------------|
|                                             | 2003                           | 2002       |
|                                             |                                | (Restated) |
| Numerators:                                 |                                |            |
| Numerator for basic<br>earnings per share - |                                |            |
| Net income                                  | \$ 145,790                     | \$ 492,575 |
| Cumulative preferred dividend               | (125,000)                      | (61,644)   |
| Income available to<br>common shareholders  | \$ 20,790                      | \$ 430,931 |

Numerator for diluted

# Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

|                                                |            |            |
|------------------------------------------------|------------|------------|
| earnings per share -                           |            |            |
| Net income (1)                                 | \$ 152,413 | \$ 620,410 |
| Cumulative preferred dividend                  | (125,000)  | (61,644)   |
|                                                | -----      | -----      |
| Income available to<br>common shareholders (1) | \$ 27,413  | \$ 558,766 |
|                                                | =====      | =====      |

8

|                                                                                                                | Three months ended<br>March 31 |            |
|----------------------------------------------------------------------------------------------------------------|--------------------------------|------------|
|                                                                                                                | 2003                           | 2002       |
|                                                                                                                | -----                          | -----      |
|                                                                                                                |                                | (Restated) |
| Denominators:                                                                                                  |                                |            |
| Denominator for basic<br>earnings per share -<br>weighted average shares<br>outstanding                        | 5,839,474                      | 5,754,918  |
| Effect of dilutive securities:                                                                                 |                                |            |
| Convertible Operating<br>Partnership units                                                                     | 1,844,264                      | 1,703,981  |
| Stock options (2)                                                                                              | 3,441                          | 9,115      |
|                                                                                                                | -----                          | -----      |
| Denominator for diluted<br>earnings per share - adjusted<br>weighted average shares and<br>assumed conversions | 7,687,179                      | 7,468,014  |
|                                                                                                                | =====                          | =====      |

## Note 5. Subsequent event

On April 21, 2003, the Board of Directors declared a regular quarterly cash dividend of \$0.25 per share to be paid on May 15, 2003, to common shareholders of record on May 1, 2003. The Board of Directors also authorized the payment of dividends totaling \$125,000 to the Series B Preferred shareholder in accordance with the investment agreement for those shares.

9

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report contains forward-looking statements within the

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

meaning of federal securities law. You can identify such statements by the use of forward-looking terminology, such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information.

Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve our plans, intentions or expectations. When you consider such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- o Our markets could suffer unexpected increases in the development of apartment, other rental or competitive housing alternatives;
- o our markets could suffer unexpected declines in economic growth or an increase in unemployment rates;
- o general economic conditions could cause the financial condition of a large number of our tenants to deteriorate;
- o we may not be able to lease or re-lease apartments quickly or on as favorable terms as under existing leases;
- o revenues from our third-party apartment property management activities could decline, or we could incur unexpected costs in performing these activities;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates could increase our debt service costs;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

You should read the discussion in conjunction with the financial statements and notes thereto included in this Quarterly Report and our Annual Report on Form 10-K.

### Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. We currently own 19 apartment communities containing 4,571 units and provide third-party management services for 9 communities containing a total of 2,349 units. In addition to our apartment communities, we own 41 properties that we lease on a triple-net basis to a restaurant operator.

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the sole general partner and owns a controlling interest in BNP Residential

Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the Operating Partnership. We refer to the limited partners of the Operating Partnership as minority unitholders or as the minority interest.

Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, telephone 704/944-0100.

## Results of Operations

### Revenues

Total revenues in the first quarter of 2003 were \$10.2 million, an increase of 16.1% compared to the first quarter of 2002. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for approximately 90.2% of total revenues in the first quarter of 2003, compared to 88.6% in the first quarter of 2002.

Apartment rental income totaled \$8.9 million in the first quarter of 2003, an increase of 18.7% compared to the first quarter of 2002. This increase is primarily attributable to the acquisition of three apartment communities in 2002 and one in the first quarter of 2003, which contributed approximately \$1.6 million to apartment rental income in the first quarter of 2003. For the first quarter, average economic occupancy for all apartments was 90.9% in 2003, compared to 92.3% in the first quarter of 2002. Average monthly revenue per occupied unit for all apartments was \$732 in the first quarter of 2003, compared to \$735 in the first quarter of 2002.

On a "same-units" basis (the 15 apartment communities that we owned throughout the first three months of both years), apartment rental income decreased by 2.5% in the first quarter of 2003 compared to the first quarter of 2002. This decrease was the result of declines in both average economic occupancy and average revenue per occupied unit. On a same-units basis, average economic occupancy was 90.9% for the first quarter of 2003, compared to 92.3% in the first quarter of 2002; average monthly revenue per occupied unit was \$728 in the first quarter of 2003, compared to \$735 in the first quarter of 2002.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the first quarter of 2003 follow:

|                      | Number<br>of<br>apartment<br>units | Average<br>economic<br>occupancy | Average<br>monthly<br>revenue<br>per<br>occupied<br>unit |
|----------------------|------------------------------------|----------------------------------|----------------------------------------------------------|
|                      | -----                              | -----                            | -----                                                    |
| Abbingtion Place     | 360                                | 90.0%                            | \$759                                                    |
| Allerton Place       | 228                                | 92.1%                            | 729                                                      |
| Alta Harbour (2)     | 290                                | 87.5%                            | 781                                                      |
| Barrington Place (2) | 348                                | 93.2%                            | 764                                                      |
| Brookford Place (2)  | 108                                | 94.0%                            | 659                                                      |
| Chason Ridge         | 252                                | 95.2%                            | 745                                                      |
| Harris Hill          | 184                                | 91.1%                            | 663                                                      |
| Latitudes            | 448                                | 95.2%                            | 844                                                      |

# Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

|              |     |       |     |
|--------------|-----|-------|-----|
| Madison Hall | 128 | 98.6% | 574 |
| Oakbrook     | 162 | 87.4% | 756 |
| Oak Hollow   | 461 | 81.7% | 621 |

11

|                    | Number<br>of<br>apartment<br>units | Average<br>economic<br>occupancy | Average<br>monthly<br>revenue<br>per<br>occupied<br>unit |
|--------------------|------------------------------------|----------------------------------|----------------------------------------------------------|
|                    | -----                              | -----                            | -----                                                    |
| Paces Commons      | 336                                | 91.3%                            | 667                                                      |
| Paces Village      | 198                                | 95.3%                            | 644                                                      |
| Pepperstone        | 108                                | 94.4%                            | 659                                                      |
| Savannah Place     | 172                                | 92.0%                            | 705                                                      |
| Summerlyn Place    | 140                                | 91.7%                            | 835                                                      |
| The Place (1)      | 144                                |                                  |                                                          |
| Waterford Place    | 240                                | 89.3%                            | 856                                                      |
| Woods Edge         | 264                                | 90.4%                            | 741                                                      |
| All apartments (1) | 4,427                              |                                  |                                                          |
| - 2003             |                                    | 90.9%                            | 732                                                      |
| - 2002             |                                    | 92.3%                            | 735                                                      |
| Same units         | 3,681                              |                                  |                                                          |
| - 2003             |                                    | 90.9%                            | 728                                                      |
| - 2002             |                                    | 92.3%                            | 735                                                      |

- (1) We acquired The Place Apartments effective March 13, 2003. We have excluded The Place from these calculations as of March 31.
- (2) We acquired Barrington Place and Brookford Place effective May 31, 2002. We acquired Alta Harbour effective September 18, 2002.

We remain committed to our markets and our focus on middle-market apartment properties. However, we continue to find ourselves in a very difficult operating environment. The lowest interest rates in decades have led to near-record levels of single-family home purchases by individuals who traditionally would have been apartment residents. Simultaneously, an anemic economy has resulted in extensive job losses. When you compound these two factors with the uncertainty caused by the threat of terrorism, war, expanding deficits at all government levels, impending property tax increases, and skyrocketing insurance costs, it is very difficult to form a clear vision of the near-term future.

In this environment, we believe the best way to achieve our long-term objectives is to focus our attention on the day-to-day operations of our apartment communities, with the goal of maximizing short-term performance while maintaining and enhancing the long-term potential of our apartment properties. We will also continue to seek opportunities to add to and improve the size and quality of our apartment portfolio.

Restaurant rental income was \$1.0 million in the first quarters of both 2003 and 2002. A decline in restaurant rental income of approximately \$6,000 was the result of the sale of one restaurant property late in the first quarter of 2003. Restaurant rental income for both 2003 and 2002 was the minimum rent. "Same-store" (those restaurant properties that operated throughout the first

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

three months of both 2003 and 2002) sales at our restaurant properties decreased by 4.7% in the first quarter of 2003 compared to the first quarter of 2002.

Through March 31, 2003, we have sold six of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement that

12

allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value. Under our master lease with Enterprises, restaurant rental income payments are the greater of a specified minimum rent or 9.875% of food sales. The minimum rent is reduced by approximately \$8,000 per month, or \$96,000 per year, for each restaurant that is sold.

Management fee income totaled \$227,000 in the first quarter of 2003, compared to \$294,000 in the first quarter of 2002. This decrease is attributable to our acquisition of two previously managed apartment communities in May 2002, as well as the termination of management contracts for several smaller properties in the first quarter of 2003.

Interest and other income totaled \$130,000 in the first quarter of 2003, compared to \$37,000 in the first quarter of 2002. These comparisons reflect the impact of non-routine income totaling \$107,000 in the first quarter of 2003 (proceeds from final resolution of litigation commenced by the company in 1997), offset by a decline in interest income compared to the first quarter of 2002.

### Expenses

Effective January 1, 2003, in accordance with current accounting guidance, we report the loss on extinguishment of debt as an operating expense, rather than as an extraordinary item as previously required. We have reclassified the write-off of unamortized loan costs at refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. This reclassification has no impact on net income; however, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. A more detailed description of the reclassification adjustments is included in the notes to the financial statements included in this Quarterly Report.

Total expenses, including non-cash charges for depreciation, amortization and write-off of unamortized loan costs, were \$10.1 million in the first quarter of 2003, an increase of 23.0% compared to the first quarter of 2002.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the first quarter of 2003 totaled \$3.5 million, a 29.0% increase compared to the first quarter of 2002. These amounts include approximately \$600,000 in apartment operations expense for properties we acquired in 2002 and early 2003.

On a same-units basis, apartment operations expense increased 6.9% in the first quarter of 2003 compared to the first quarter of 2002. This increase reflects higher costs for utilities, service compensation and property insurance in 2003.

Operating expenses for restaurant properties are insignificant because the triple-net lease arrangement requires the lessee to pay virtually all of the

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

expenses associated with the restaurant properties.

Apartment administrative expense (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third party properties) was \$327,000 in the first quarter of 2003, essentially unchanged from the first quarter of 2002.

Corporate administration expense was \$687,000 in the first quarter of 2003, an increase of 15.8% compared to the first quarter of 2002. This increase was primarily attributable to increases in compensation and directors and officers insurance expense.

13

Depreciation expense totaled \$2.3 million in the first quarter of 2003, a 19.9% increase compared to the first quarter of 2002. This increase is attributable to the addition of apartment communities, as well as the impact of additions and replacements at other apartment communities.

Amortization expense (of deferred loan costs) was \$73,000 in the first quarter of 2003, compared to \$48,000 in the first quarter of 2002. This increase is primarily attributable to the impact of loan costs associated with financing transactions in 2002.

Interest expense totaled \$3.2 million in the first quarter of 2003, a 27.6% increase compared to the first quarter of 2002. This increase reflects the impact of approximately \$55 million in new debt related to apartment acquisitions in the second and third quarters of 2002 and the first quarter of 2003, reduced by the effect of lower interest rates on our lines of credit. Overall, weighted average interest rates were 6.0% for the first quarter of 2003, compared to 6.2% for the first quarter of 2002.

During the first quarter of 2002, we refinanced long-term debt related to Oakbrook Apartments. In conjunction with this transaction, we wrote off unamortized loan costs of \$95,000. As discussed above, we have reclassified the write-off of unamortized loan costs at the date of the refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. We previously reflected this write-off, net of minority interests' share, with a charge of \$73,000 as an extraordinary item in the financial statements.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. In September 2002, we issued an additional 227,272 shares of this preferred stock. Because preferred shareholders have priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to preferred shareholders in calculating net income available to common shareholders. The dividend on the Series B shares is \$1.10 per share per year. The cumulative preferred dividend totaled \$125,000 for the first quarter of 2003, and approximately \$62,000 for the first quarter of 2002.

### Net income

Income available to common shareholders, after the cumulative preferred dividend, was \$21,000 for the first quarter of 2003, compared to \$431,000 for the first quarter of 2002. Net income (before the cumulative preferred dividend) was \$146,000 for the first quarter of 2003, compared to \$493,000 for the first quarter of 2002. These comparisons reflect the impact of decline in apartments operating results and the impact of the cumulative preferred dividend.

### Funds from Operations

Funds from operations is frequently referred to as "FFO." FFO is

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures."

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of REIT

14

operating performance that excludes historical cost depreciation from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring the operating performance of an equity REIT.

We calculate funds available for distribution as FFO plus non-cash expense for amortization and write-off of unamortized loan costs, less recurring capital expenditures. We believe that, together with net income and cash flows, funds available for distribution provides investors with an additional measure to evaluate the ability of the REIT to incur and service debt, to fund acquisitions and other capital expenditures, as well as to fund distributions to shareholders and minority unitholders.

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. You should not consider funds from operations or funds available for distribution:

- o to be alternatives to net income as reliable measures of our operating performance, or
- o to be alternatives to cash flows as measures of liquidity.

Funds from operations and funds available for distribution do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders. Funds from operations and funds available for distribution do not represent cash flows from operating, investing or financing activities as defined by generally accepted accounting principles. Further, funds from operations and funds available for distribution as disclosed by other REITs might not be comparable to our calculation of funds from operations or funds available for distribution.

Funds from operations of the Operating Partnership totaled \$2.4 million in the first quarter of 2003, a 5.8% decrease compared to the first quarter of 2002. This comparison reflects the impact of decline in apartment operating results and the increased cumulative preferred dividend.

We calculated funds from operations of the Operating Partnership as follows (all amounts in thousands):

|                                 | Three months ended<br>March 31 |        |
|---------------------------------|--------------------------------|--------|
|                                 | 2003                           | 2002   |
|                                 | -----                          | -----  |
|                                 | (Restated)                     |        |
| Income before minority interest | \$ 152                         | \$ 620 |
| Cumulative preferred dividend   | (125)                          | (62)   |
| Depreciation                    | 2,333                          | 1,947  |

# Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

Funds from operations -  
Operating Partnership

| 2003    | 2002    |
|---------|---------|
| \$2,361 | \$2,505 |

15

Three months ended  
March 31

| 2003 | 2002 |
|------|------|
|------|------|

Per share amounts - diluted\*:

|                                            |        |        |
|--------------------------------------------|--------|--------|
| Net income                                 | \$0.02 | \$0.08 |
| Income available to<br>common shareholders | 0.00   | 0.07   |
| Funds from operations                      | 0.31   | 0.34   |

\* assumes conversion of Operating Partnership units to common shares; minority interest in the Operating Partnership has been eliminated. Preferred stock is antidilutive for both periods.

A reconciliation of funds from operations to funds available for distribution follows (all amounts in thousands):

Three months ended  
March 31

| 2003 | 2002 |
|------|------|
|------|------|

Funds from operations -

|                                                     |         |         |
|-----------------------------------------------------|---------|---------|
| Operating Partnership                               | \$2,361 | \$2,505 |
| Amortization of loan costs                          | 73      | 48      |
| Write-off of unamortized<br>loan costs at refinance | -       | 95      |
| Recurring capital expenditures                      | (282)   | (282)   |

Funds available for distribution

|         |         |
|---------|---------|
| \$2,152 | \$2,366 |
|---------|---------|

A further reconciliation of funds from operations of the Operating Partnership to funds from operations available to common shareholders follows (all amounts in thousands):

Three months ended  
March 31

| 2003 | 2002 |
|------|------|
|------|------|

Funds from operations -

|                                               |         |         |
|-----------------------------------------------|---------|---------|
| Operating Partnership                         | \$2,361 | \$2,505 |
| Minority interest in<br>funds from operations | (567)   | (572)   |

Funds from operations available  
to common shareholders

|         |         |
|---------|---------|
| \$1,794 | \$1,933 |
|---------|---------|

16

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

Other information about our historical cash flows follows (all amounts in thousands):

|                                                                         | Three months ended<br>March 31 |          |
|-------------------------------------------------------------------------|--------------------------------|----------|
|                                                                         | 2003                           | 2002     |
|                                                                         | -----                          | -----    |
| Net cash provided by (used in):                                         |                                |          |
| Operating activities                                                    | \$ 2,220                       | \$ 2,081 |
| Investing activities                                                    | (5,863)                        | (544)    |
| Financing activities                                                    | 3,173                          | (2,406)  |
| Dividends and distributions paid to:                                    |                                |          |
| Preferred shareholders                                                  | \$ 126                         | \$ 3     |
| Common shareholders                                                     | 1,458                          | 1,781    |
| Minority unitholders in<br>Operating Partnership                        | 462                            | 529      |
| Scheduled debt principal payments                                       | \$ 267                         | \$ 42    |
| Non-recurring capital expenditures                                      | 471                            | 262      |
| Weighted average shares outstanding                                     |                                |          |
| Preferred shares                                                        | 455                            | 227      |
| Common shares                                                           | 5,839                          | 5,755    |
| Weighted average Operating<br>Partnership minority units<br>outstanding | 1,844                          | 1,704    |

### Capital Resources and Liquidity

#### Capital Resources

Effective March 13, 2003, we acquired The Place Apartments at a cost of approximately \$5.6 million, paid in cash. We financed this acquisition through issuance of a first deed of trust note in the amount of \$4.56 million and draws on our line of credit secured by Latitudes Apartments. The fixed-rate deed of trust loan provides for interest at 5.06% and monthly payments including principal and interest of approximately \$33,000, with maturity in 2013. In conjunction with this financing, we funded repair escrows of approximately \$65,000 and paid lender fees and costs totaling approximately \$61,000. Through March 31, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000.

Effective February 21, 2003, we sold one restaurant property to the lessee for its net carrying value of approximately \$588,000. We applied the proceeds from this sale to reduce our line of credit secured by the restaurant properties.

As of March 31, 2003, total long-term debt was \$216.7 million, including \$169.0 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and \$47.7 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 6.0% at March 31, 2003, down from 6.1% at December 31, 2002. At our current level of variable-rate debt, a 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$485,000.

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

During the first quarter of 2003, we issued approximately 17,600 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$177,000.

### Cash flows and liquidity

Net cash flows from operating activities were \$2.2 million in the first quarter of 2003, compared to \$2.1 million in the first quarter of 2002. Investing and financing activities, other than those described under "Capital Resources" above, focused on capital expenditures at apartment communities, along with payment of dividends and distributions.

We have announced that the company will pay a regular quarterly dividend of \$0.25 per share on May 15, 2003, to shareholders of record of our common stock on May 1, 2003.

In January 2003, we announced we were reducing our quarterly dividend to \$0.25 per share from the \$0.31 per share per quarter that had been paid for a number of years. While this was not pleasant, we felt that, given the current operating environment and the uncertain near-term outlook, a reduction in dividend was necessary. You should not view this decision as a sign that we have changed our philosophy concerning the dividend, for we remain committed to paying the highest dividend that is reasonably prudent. While we are not philosophically opposed to paying dividends that temporarily exceed current cash flow after operating expenses, this would only occur when we were confident that we would see significant improvement in operations in a relatively short period of time.

We generally expect to meet our short-term liquidity requirements through net cash provided by operations and utilization of credit facilities. We believe that net cash provided by operations is, and will continue to be, adequate to meet the REIT operating requirements in both the short term and the long term. We anticipate funding our future acquisition activities primarily by using short-term credit facilities as an interim measure, to be replaced by funds from equity offerings, long-term debt or joint venture investments. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and repayment of short-term financing of possible property acquisitions, through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

### Critical Accounting Policies - Capital expenditures and depreciation

Our significant accounting policies are identified and discussed in the notes to our financial statements included in our Annual Report on Form 10-K. Our policy and practice regarding capital expenditures and depreciation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

In general, for acquired apartment properties, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings.

For the acquisitions of Barrington Place, Brookford Place and Alta Harbour Apartments in 2002, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

lives as follows: land improvements, 7-20 years;

18

short-lived building components, 5-20 years; base building structure, 60 years; and fixtures, equipment and floor coverings, 5-10 years. We expect to complete a detailed analysis of components for The Place Apartments in the near future.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We retire replaced assets with a charge to depreciation for any remaining carrying value. We capitalize all floor covering, appliance and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of 5-10 years.

Capital expenditures at our apartment communities during the first quarter of 2003 totaled approximately \$753,000, including \$205,000 for acquisition improvements, \$266,000 for additions and betterments, and \$282,000 for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during the first quarter of 2003 totaled approximately \$1.2 million, including \$434,000 in compensation of service staff and \$742,000 in payments for materials and contracted services.

A summary of capital expenditures at our apartment communities through March 31, 2003, in aggregate and per apartment unit, follows:

|                                     | Total   | Per unit |
|-------------------------------------|---------|----------|
|                                     | -----   | -----    |
|                                     | (000's) |          |
| Recurring capital expenditures:     |         |          |
| Floor coverings                     | \$161   | \$36     |
| Appliances/HVAC                     | 39      | 9        |
| Exterior paint                      | 16      | 4        |
| Computer/support equipment          | 10      | 2        |
| Other                               | 55      | 13       |
|                                     | -----   | -----    |
|                                     | \$282   | \$64     |
|                                     | =====   | =====    |
| Non-recurring capital expenditures: |         |          |
| Acquisition improvements            | \$205   |          |
| Additions and betterments           | 262     |          |
| Computer/support equipment          | 4       |          |
|                                     | -----   |          |
|                                     | \$471   |          |
|                                     | =====   |          |

Costs of repairs, maintenance, and capital replacements and improvements at restaurant properties are borne by the lessee.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information that would be provided under Item 305 of Regulation S-K since December 31, 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above for a discussion of our exposure to interest rate risks.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures are further designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

Based on our most recent evaluation, which was completed as of the end of the first quarter of 2003, our chief executive officer and chief financial officer believe that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the completion of this evaluation.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

The Registrant agrees to furnish a copy of all agreements related to long-term debt upon request of the Commission.

Exhibit No.

|      |                                                      |
|------|------------------------------------------------------|
| 99.1 | Section 906 Certification by Chief Executive Officer |
| 99.2 | Section 906 Certification by Chief Financial Officer |

b) Reports on Form 8-K:

We filed a Current Report on Form 8-K on March 21, 2003, to report the acquisition of The Place Apartments as of March 13, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

May 12, 2003

/s/ Philip S. Payne

-----  
Philip S. Payne  
Executive Vice President and  
Chief Financial Officer  
(Duly authorized officer)

May 12, 2003

/s/ Pamela B. Bruno

-----  
Pamela B. Bruno  
Vice President, Controller and  
Chief Accounting Officer

21

### CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, D. Scott Wilkerson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNP Residential Properties, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

(b)evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c)presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of the registrant's board of directors:

(a)all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b)any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ D. Scott Wilkerson

-----  
D. Scott Wilkerson  
President and Chief Executive Officer

May 12, 2003

22

### CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Philip S. Payne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BNP Residential Properties, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-Q

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of the registrant's board of directors:

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Philip S. Payne

-----  
Philip S. Payne  
Executive Vice President and  
Chief Financial Officer

May 12, 2003

### INDEX TO EXHIBITS

#### Exhibit No.

#### Page

|      |                                                      |    |
|------|------------------------------------------------------|----|
| 99.1 | Section 906 Certification by Chief Executive Officer | 25 |
| 99.2 | Section 906 Certification by Chief Financial Officer | 26 |

