KOGER EQUITY INC
Form 10-Q
May 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **MARCH 31, 2004** or

o **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 **1-9997**

KOGER EQUITY, INC.

(Exact name of registrant as specified in its charter)

FLORIDA (State or other jurisdiction of incorporation or organization)	**59-2898045** (I.R.S. Employer Identification No.)
225 NE MIZNER BOULEVARD, SUITE 200 **BOCA RATON, FLORIDA** (Address of principal executive offices)	**33432** (Zip Code)

Registrant s telephone number, including area code: **(561) 395-9666**

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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2004
Common Stock, $.01 par value	26,838,743 shares

KOGER EQUITY, INC. AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS REPORT

To the Board of Directors and Shareholders of
Koger Equity, Inc.
Boca Raton, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of Koger Equity, Inc. and subsidiaries (the Company) as of March 31, 2004, and the related condensed consolidated statements of operations for the three-month periods ended March 31, 2004 and 2003, the condensed consolidated statement of changes in shareholders equity for the three-month period ended March 31, 2004 and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2004 and 2003. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2003, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 5, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Certified Public Accountants

West Palm Beach, Florida
May 4, 2004

KOGER EQUITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited See Independent Accountants Report)
(In thousands, except share data)

	March 31, 2004	December 31, 2003
ASSETS		
Real Estate Investments:		
Operating properties:		
Land	$ 129,973	$ 119,973
Buildings	951,162	838,430
Furniture and equipment	3,672	3,599
Accumulated depreciation	(187,874)	(179,569)
Operating properties, net	896,933	782,433
Undeveloped land held for investment	10,975	10,975
Undeveloped land held for sale	3,041	3,041
Cash and cash equivalents	50,588	9,163
Restricted cash	12,681	11,114
Accounts receivable, net of allowance for uncollectible accounts of $1,188 and $939	17,703	16,236
Investment in unconsolidated affiliate	3,369	
Other assets	14,193	15,239
TOTAL ASSETS	$1,009,483	$ 848,201
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgages and loans payable	$ 468,241	$ 408,716
Accounts payable	4,884	4,299
Accrued real estate taxes payable	4,864	1,853
Accrued liabilities other	10,255	11,016
Dividends payable	9,693	7,824
Advance rents and security deposits	7,147	6,846
Total Liabilities	505,084	440,554
Minority interest	4,672	4,672

Shareholders Equity:		
Preferred stock, $.01 par value; 50,000,000 shares authorized; liquidation preference of $25 per share; 2,990,000 shares issued and outstanding	30	30
Common stock, $.01 par value; 100,000,000 shares authorized; 35,349,691 and 30,011,225 shares issued; 26,837,657 and 21,495,956 shares outstanding	354	300
Capital in excess of par value	649,787	546,968
Notes receivable from stock sales to related parties	(5,092)	(5,092)
Accumulated other comprehensive loss	(241)	(241)
Dividends in excess of net income	(13,553)	(7,405)
Treasury stock, at cost; 8,512,034 and 8,515,269 shares	(131,558)	(131,585)
Total Shareholders Equity	499,727	402,975
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$1,009,483	$ 848,201

See notes to unaudited condensed consolidated financial statements.

KOGER EQUITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited See Independent Accountants Report)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2004	**2003**
Revenues		
Rental and other rental services	$39,468	$36,280
Management fees	66	205
Other		5
Total operating revenues	39,534	36,490
Expenses		
Property operations	15,536	13,349
Depreciation and amortization	9,220	8,456
General and administrative	2,844	2,943
Direct cost of management fees		86
Other	52	36
Total operating expenses	27,652	24,870
Operating Income	11,882	11,620
Other Income and Expense		
Equity in earnings of unconsolidated affiliate	131	
Interest Income	127	54
Mortgage and loan interest, including amortization of deferred loan costs of $374 and $357	(7,306)	(7,403)
Total other income and expense	(7,048)	(7,349)
Income Before Income Taxes	4,834	4,271
Income tax provision		

Net Income	4,834	4,271
Dividends on preferred stock	(1,588)	
Net Income Available to Common Shareholders	**$** 3,246	$ 4,271
Earnings Per Share Available to Common Shareholders:		
Basic	$ 0.12	$ 0.20
Diluted	$ 0.12	$ 0.20
Weighted Average Shares:		
Basic	26,071	21,299
Diluted	26,524	21,327

See notes to unaudited condensed consolidated financial statements.

KOGER EQUITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited See Independent Accountants Report)
(In thousands)

	Preferred Stock		Common Stock					Retained Earnings (Dividends In Excess		
	Shares Issued	Par Value	Shares Issued	Par Value	Capital in Excess of Par Value	Notes Receivable from Stock Sales	Accumulated Other Comprehensive Loss	Of Net Income)	Treasury Stock	Total Share-holders Equity
BALANCE AT DECEMBER 31, 2003	2,990	$30	30,011	$300	$546,968	$(5,092)	$(241)	$ (7,405)	$(131,585)	$402,975
Common stock sold			5,175	52	100,178				27	100,257
Options exercised			163	2	2,641					2,643
Dividends declared								(10,982)		(10,982)
Net Income								4,834		4,834
BALANCE AT MARCH 31, 2004	2,990	$30	35,349	$354	$649,787	$(5,092)	$(241)	$(13,553)	$(131,558)	$499,727

See notes to unaudited condensed consolidated financial statements.

KOGER EQUITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited See Independent Accountants Report)
(In thousands)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
OPERATING ACTIVITIES		
Net income	$ 4,834	$ 4,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliate	(131)	
Depreciation and amortization	9,220	8,456
Amortization of deferred loan costs	374	357
Provision for uncollectible accounts	282	51
Changes in assets and liabilities:		
Increase in receivables and other assets	(1,332)	(146)
Increase (decrease) in accounts payable, accrued liabilities and other liabilities	3,135	(711)
Net cash provided by operating activities	16,382	12,278
INVESTING ACTIVITIES		
Property acquisitions	(118,107)	
Tenant improvements to first generation space	(1,273)	(1,146)
Tenant improvements to second generation space	(973)	(1,253)
Building improvements	(2,392)	(661)
Deferred tenant costs	(647)	(573)
Additions to furniture and equipment	(73)	(168)
(Increase) decrease in restricted cash	(1,567)	149
Investment in unconsolidated affiliate	(3,238)	
Net cash used in investing activities	(128,270)	(3,652)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	2,643	67

Proceeds from sales of common stock	100,257	64
Proceeds from mortgages and loans	75,874	20,000
Principal payments on mortgages and loans payable	(16,349)	(20,038)
Dividends paid	(9,112)	(7,453)
Net cash provided by (used in) financing activities	153,313	(7,360)
Net increase (decrease) in cash and cash equivalents	41,425	1,266
Cash and cash equivalents beginning of period	9,163	4,627
Cash and cash equivalents end of period	$ 50,588	$ 5,893

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for interest	$ 6,776	$ 6,679
Cash paid during the period for income taxes	$ 5	$
Non cash item-issuance of limited partner units for real estate acquisitions	$ 2,041	$

See notes to unaudited condensed consolidated financial statements.

KOGER EQUITY, INC. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS
ENDED MARCH 31, 2004 AND 2003
(Unaudited See Independent Accountants Report)**

1. BASIS OF PRESENTATION. The condensed consolidated financial statements have been prepared by Koger Equity, Inc. (the Company or KE). All material intercompany transactions and accounts have been eliminated in consolidation. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission related to interim financial statements.

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2003, included in the Company s Form 10-K Annual Report for the year ended December 31, 2003. The accompanying balance sheet at December 31, 2003 has been derived from the audited financial statements at that date and is condensed.

All adjustments which, in the opinion of management, are necessary to fairly present the results for the interim periods have been made. Certain prior year amounts have been reclassified in order to conform to the current year presentation. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for future periods or for the full year.

New Accounting Standards. In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Under SFAS No. 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The Company s adoption of SFAS No. 145 has not had a material impact on its condensed consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination, an asset retirement obligation covered by SFAS No. 143 or with a disposal activity covered by SFAS No. 144. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred provided that such fair value can be reasonably estimated. An exception applies for certain one-time termination benefits that are incurred over time. The Company adopted SFAS No. 146 effective January 1, 2003. The Company s adoption of SFAS No. 146 has not had a material impact on its condensed consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others. FIN No. 45 requires certain guarantees to be recorded at fair value and also requires significant new disclosures related to guarantees, even when the likelihood of making any payments under the guarantee is remote. FIN No. 45 generally applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying variable that is related to an asset, liability, or an equity security of the guaranteed party. FIN No. 45 is effective for guarantees issued or modified after December 31, 2002. The Company adopted FIN No. 45 effective January 1, 2003. The Company s adoption of FIN No. 45 has not had a material impact on its condensed consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting described in SFAS No. 123 or the intrinsic value method described in APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 148 s transition provisions are effective for fiscal years ending after December 15, 2002. The Company adopted the interim disclosure provisions of SFAS No. 148 effective January 1, 2003. The Company s adoption of SFAS No. 148 has not had a material impact on its condensed consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, which is intended to clarify the application of ARB No. 51, Consolidated Financial Statements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN No. 46 requires the consolidation of variable interest entities (VIEs) in which the variable interest will absorb a majority of the entity s expected losses if they occur, receive a majority of the entity s expected residual returns if they occur, or both. FIN No. 46 is effective for VIEs created after January 31, 2003. It applies in the first fiscal year or interim period beginning after December 15, 2003 to variable interest entities in which an enterprise that is a public company holds a variable interest that it acquired before February 1, 2003. The Company s adoption of FIN No. 46 has not had a material impact on its condensed consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. This statement was effective for contracts entered into or modified after June 30, 2003. The Company s adoption of SFAS No. 149 has not had a material impact on its consolidated financial statements.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). This statement establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 (July 1, 2003 for calendar quarter companies). The Company adopted FASB No. 150 effective July 1, 2003. The Company s adoption of FASB No. 150 has not had a material impact on its condensed consolidated financial statements.

2. ORGANIZATION. Koger Equity, Inc. (KE), a Florida corporation, was incorporated in 1988 to own and manage commercial office buildings and other income-producing properties. KE is a self-administered and self-managed real estate investment trust (a REIT) and its common stock is listed on the New York Stock Exchange under the ticker symbol KE. As of March 31, 2004, KE owned or had interests in 130 office buildings containing 10.2 million rentable square feet, primarily located within 19 suburban office projects and two urban centers in 11 metropolitan areas in the Southeastern United States and Texas.

In addition to managing its own properties, the Company formerly provided asset management services to Crocker Realty Trust, a related party. The Company and Crocker Realty Trust terminated the asset management agreement on

May 1, 2003.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. These estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances. However, actual results could differ from the Company s estimates under different assumptions or conditions. On an ongoing basis, the Company evaluates the reasonableness of its estimates.

The Company believes the following significant accounting policies affect the significant estimates and assumptions used in the preparation of its condensed consolidated financial statements:

Investments in Real Estate. Rental property and improvements, including interest and other costs capitalized during construction, are included in real estate investments and are stated at cost. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Significant renovations and improvements, which improve or extend the useful life of the assets, are capitalized. Except for amounts attributed to land, rental property and improvements are depreciated as described below.

The Company recognizes gains on the sale of property in accordance with SFAS No. 66. Revenues from sales of property are recognized when a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured.

Depreciation and Amortization. The Company computes depreciation on its operating properties using the straight-line method based on estimated useful lives of three to 40 years. A significant portion of the acquisition cost of each operating property is allocated to the acquired buildings (usually 85% to 90%). The allocation of the acquisition cost to buildings and the determination of the useful lives are based on the Company s estimates. If the Company were to allocate acquisition costs inappropriately to buildings or to incorrectly estimate the useful lives of its operating properties, it may be required to adjust future depreciation expense. Deferred tenant costs (leasing commissions and tenant relocation costs) are amortized over the term of the related leases.

Impairment of Long-Lived Assets. The Company s long-lived assets include investments in real estate. The Company assesses impairment of long-lived assets whenever changes or events indicate that the carrying value may not be recoverable. The Company assesses impairment of operating properties based on the operating cash flows of the properties. In performing its assessment, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. During the quarter ended March 31, 2004, no impairment charges were recorded. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges.

Revenue Recognition. Rental income is generally recognized over the lives of leases according to provisions of the underlying lease agreements. Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease. For these leases, the Company records rental income for the full term of each lease on a straight-line basis. For the quarters ended March 31, 2004 and 2003, the recognition of rental revenues on a straight-line basis for applicable leases increased rental revenues by $1,249,000 and $1,295,000, respectively, over the amount which would have been recognized based upon the contractual provisions of these leases.

The Company historically generated management fees and leasing commissions by providing on-site property management and leasing services to a limited number of third party owners. Management fees were generally earned monthly and were based on a percentage of the managed properties monthly rental and other operating revenues. Leasing commissions were earned when the Company, on behalf of the third party owner, negotiated or assisted in the negotiation of new leases,

renewals and expansions of existing leases, and were generally based on a percentage of rents to be received under the initial term of the respective leases.

Allowances for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses that could result from the inability of its tenants to make required payments for rents and other rental services. In assessing the recoverability of these receivables, the Company makes assumptions regarding the financial condition of the tenants based primarily on past payment trends and certain financial information that tenants submit to the Company. If the financial condition of the Company s tenants were to deteriorate and result in an impairment of their ability to make payments, the Company may be required to increase its allowances by recording additional bad debt expense. Likewise, should the financial condition of its tenants improve and result in payments or settlements of previously reserved amounts, the Company may be required to record a reduction in bad debt expense.

Federal Income Taxes. The Company is qualified and has elected tax treatment as a real estate investment trust under the Internal Revenue Code (a REIT). A corporate REIT is a legal entity that owns income-producing real property, and through distributions of income to its shareholders, is permitted to reduce or avoid the payment of federal income taxes at the corporate level. To maintain qualification as a REIT, the Company must, among other requirements, distribute to shareholders at least 90 percent of REIT taxable income. To the extent that the Company pays dividends equal to 100 percent of REIT taxable income, the earnings of the Company are taxed at the shareholder level. However, the use of net operating loss carryforwards, which may reduce REIT taxable income to zero, are limited for alternative minimum tax purposes. Distributed capital gains on sales of real estate are not subject to tax; however, undistributed capital gains are taxed as capital gain. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes and will not be able to qualify as a REIT for four subsequent taxable years. Although Koger Realty Services, Inc. (KRSI), a taxable REIT subsidiary, is consolidated with the Company for financial reporting purposes, this entity is subject to federal income tax and files separate federal and state income tax returns.

Stock Options. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. Companies are permitted, however, to continue to apply Accounting Principles Board Opinion No. 25 (APB 25), which recognizes compensation cost based on the intrinsic value of the equity instrument awarded. As a result, there were no stock options charged to income during the three months ended March 31, 2004 and 2003. The Company has continued to apply APB 25 to its stock based compensation awards to employees and has disclosed the required pro forma effect on net income and earnings per share.

	Three Months Ended March 31,	
	2004	**2003**
Net income available to common shareholders As reported	$3,246,000	$4,271,000
Pro forma	3,278,000	4,058,000
Diluted earnings per share As reported	$ 0.12	$ 0.20
Pro forma	0.12	0.19

Investment in Unconsolidated Affiliate. The Company accounts for an investment in an unconsolidated affiliate using the equity method of accounting as it does not have a controlling interest over the operating and financial policies of the joint venture. As a result, the assets and liabilities of the joint venture are not included in the Company s balance sheet. This investment was recorded initially at cost and subsequently adjusted for equity in earnings and cash contributions and distributions.

Fair Value of Financial Instruments. The Company believes the carrying amount of its financial instruments (temporary investments, accounts receivable, and accounts payable) is a reasonable estimate of fair value of these instruments. Based on a market interest rate of 7.0 percent, the fair value of the Company s mortgages and loans payable would be approximately $471.2 million at March 31, 2004.

Fair Value of In-Place Leases. The Company adopted SFAS No. 142 Goodwill and Other Intangible Assets, which discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review for impairment. Impairment would be examined more frequently if certain indicators were encountered. Intangible assets with a determinable useful life will continue to be amortized over that period. SFAS No. 142 also requires the separate recognition of intangible assets acquired as part of an asset acquisition, including the value attributable to leases in place and certain customer relationships. The Company recorded $274,000, $1,500,000, $272,000, and $228,000 of the estimated value of leases in place as part of its acquisitions of Three Ravinia, The Lakes on Post Oak, Tollway Crossing, and CIGNA Plaza, respectively. The Company intends to amortize these intangible assets on a straight-line basis over the remaining term of the existing leases, which usually averages 4 to 5 years. The Company is currently evaluating any other intangible assets that may have arisen resulting from its acquisition of Atlantic Center Plaza and McGinnis Park.

Cash and Cash Equivalents. Cash in excess of daily requirements is invested in short-term monetary securities. Such temporary cash investments have an original maturity of less than three months and are deemed to be cash equivalents for purposes of the condensed consolidated financial statements.

Restricted Cash. Restricted cash represents amounts contractually placed in escrow for purposes of making payments for certain future building improvements, tenant allowances, leasing commissions, real estate taxes, and debt service.

4. STATEMENTS OF CASH FLOWS. On January 13, 2004, the Company issued 5,175,000 shares of its common stock (including 675,000 shares issued in connection with the exercise of an over-allotment option granted to the Company s underwriter) at a price to the public of $20.45 per share. The net proceeds of the offering ($100.2 million) were used to pay down the Company s revolving credit facility ($15 million), fund a portion of the Atlantic Center Plaza acquisition, with the remainder intended for general corporate purposes, including future acquisitions.

On January 27, 2004, the Company acquired Atlantic Center Plaza, a 502,000 square foot building located in Atlanta, Georgia, for a purchase price of $116.5 million plus closing and other costs. Under the terms of the acquisition agreement, the Company assumed a 3-year variable interest rate secured loan of approximately $75.9 million with an interest rate of LIBOR (1.10% at March 31, 2004) plus 160 basis points. Simultaneously, at closing, the Company assumed a second 3-year variable interest rate secured loan of $10.0 million with an interest rate of LIBOR plus 600 basis points and immediately prepaid the loan in full. The Company funded the remainder of the purchase price with a portion of the net proceeds ($40.5 million) from its January 2004 common stock offering.

5. EARNINGS PER SHARE. Basic earnings per common share has been computed based on the weighted average number of shares of common stock outstanding for each period. Diluted earnings per common share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares underlying the options had been issued. The treasury stock method is used to calculate dilutive shares which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised.

For the three months ended March 31, 2004 and 2003, earnings per common share is calculated as follows (in thousands except per share data):

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
EARNINGS PER COMMON AND DILUTIVE POTENTIAL COMMON SHARE:		
Net Income available to common shareholders	$ 3,246	$ 4,271
Shares:		
Weighted average number of common shares outstanding Basic	26,071	21,299
EARNINGS PER SHARE BASIC	$ 0.12	$ 0.20
Shares:		
Weighted average number of common shares outstanding Basic	26,071	21,299
Effect of dilutive securities (a):		
Stock options	453	28
Adjusted weighted average common shares Diluted	26,524	21,327
EARNINGS PER SHARE DILUTED	$ 0.12	$ 0.20

(a) Shares issuable were derived using the Treasury Stock Method for all dilutive potential shares. As of March 31, 2004, the Company excluded approximately 400,000 antidilutive stock options from the above calculation.

6. MORTGAGES AND LOANS PAYABLE. At March 31, 2004, the Company had $468,241,000 of loans outstanding, which are collateralized by mortgages on the Company s operating properties. Annual maturities for mortgages and loans payable are summarized as follows (in thousands):

Year Ending December 31,	
2004	$ 81,282
2005	6,112
2006	99,580

2007	98,098
2008	89,606
Subsequent Years	93,563
Total	$468,241

In January 2004, the Company assumed a 3-year variable interest rate secured loan of approximately $75.9 million (all of which was outstanding on March 31, 2004) with Metropolitan Life, Inc. (MetLife), which is secured by the Company s Atlantic Center Plaza property. The loan bears interest at the LIBOR rate (the LIBOR contract rate was 1.10% as of March 31, 2004) + 160 basis points and matures on December 1, 2006. This indebtedness is collateralized by property with a carrying value of approximately $117.6 million at March 31, 2004.

7. DIVIDENDS. The Company paid quarterly dividends on its common stock of $0.35 per share on February 5, 2004, to shareholders of record on December 31, 2003. During the quarter ended March 31, 2004, the Company s Board of Directors declared a quarterly dividend on its common stock of $0.35 per share payable on May 6, 2004, to shareholders of record on March 31, 2004. On February 26, 2004, the Company s Board of Directors declared a dividend on its preferred stock of $0.53125 per share paid on March 15, 2004, to shareholders of record on March 1, 2004. This preferred dividend covered the period December 15, 2003 through March 14, 2004.

8. SEGMENT REPORTING. The Company operates in one business segment, the ownership and management of commercial real estate. The Company s primary business is the ownership, development, and operation of income-producing office properties. Management operates each property as an individual operating segment and has aggregated these operating segments into a single segment for financial reporting purposes due to the fact that all of the individual operating segments have similar economic characteristics. As of March 31, 2004, all of the Company s operations were located in the Southeastern United States and Texas.

9. NOTES RECEIVABLE FROM STOCK SALES. On February 17, 2000, and in conjunction with the Company s plan (the Repurchase Plan) to repurchase up to 2.65 million shares of common stock (the Shares), the Company entered into an agreement to, from time to time, loan to Mr. Thomas J. Crocker, Chief Executive Officer, and Mr. Robert E. Onisko, former Chief Financial Officer (collectively, the Officers), certain amounts in connection with their purchase of up to 500,000 shares and 150,000 shares, respectively, of the Company s common stock (collectively the Loan Stock). For Loan Stock purchases consummated pursuant to the Company s 1998 Equity and Cash Incentive Plan, the Company has agreed to advance up to 100% of the purchase price of the shares. For Loan Stock purchases consummated in the open market or pursuant to the Repurchase Plan, the Company has agreed to advance up to 50% of the purchase price of the shares. Each Officer s loans are collateraliz