AMERIVEST PROPERTIES INC
Form 10-Q
August 08, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2006.

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission file number 1-14462

AMERIVEST PROPERTIES INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**84-1240264** (I.R.S. Employer Identification No.)
1780 South Bellaire Street **Suite 100, Denver, Colorado** (Address of principal executive offices)	**80222** (Zip Code)

(303) 297-1800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one)

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant s common stock outstanding as of July 31, 2006 was 24,131,206.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statement of Net Assets in Liquidation

		June 30, 2006 (unaudited)
ASSETS		
Real estate assets	$	255,936,884
Cash and cash equivalents		2,110,527
Escrow deposits		3,530,952
Accounts receivable		255,887
Prepaid expenses and other assets		538,767
Total assets	$	262,373,017
LIABILITIES		
Secured mortgage loans and notes payable	$	126,440,168
Accounts payable and accrued expenses		2,544,637
Accrued real estate taxes		2,395,972
Prepaid rents and security deposits		2,609,261
Estimated net liability for costs during the liquidation period		6,227,674
Total liabilities		140,217,712
Net assets in liquidation (available to common stockholders)	$	122,155,305

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Balance Sheet

(Going Concern Basis)

		December 31, 2005
ASSETS		
Investment in real estate:		
Land	$	48,059,765
Buildings and improvements		166,431,824
Furniture, fixtures and equipment		1,304,879
Tenant improvements		14,245,047
Tenant leasing commissions		3,479,965
Intangible assets		13,371,477
Real estate assets held-for-sale, net		46,930,658
Less: accumulated depreciation and amortization		(24,220,447)
Net investment in real estate		269,603,168
Cash and cash equivalents		988,420
Escrow deposits		4,920,968
Accounts receivable, net		1,310,627
Deferred rents receivable		4,511,512
Deferred financing costs, net		1,421,375
Prepaid expenses and other assets		923,928
Other assets held-for-sale		229,792
Total assets	$	283,909,790
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Secured mortgage loans and notes payable	$	127,673,784
Unsecured line of credit		29,897,129
Secured mortgage loans held-for-sale		28,232,661
Accounts payable and accrued expenses		6,917,224
Accrued real estate taxes		4,195,875
Prepaid rents, deferred revenue and security deposits		3,273,861
Dividends payable		302,208
Total liabilities		200,492,742
Stockholders equity:		
Preferred stock, $0.001 par value Authorized: 5,000,000 shares Issued and outstanding: none		
Common stock, $0.001 par value Authorized: 75,000,000 shares Issued and outstanding: 24,121,306 shares		24,121
Capital in excess of par value		133,231,147
Distributions in excess of accumulated earnings		(49,838,220)
Total stockholders equity		83,417,048
Total liabilities and stockholders equity	$	283,909,790

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statement of Changes in Net Assets in Liquidation

(unaudited)

		For the period from June 1, 2006 to June 30, 2006
Stockholders equity at May 31, 2006 going concern basis	$	95,972,419
Liquidation basis adjustments:		
Adjust assets and liabilities to fair value		32,616,423
Estimated net costs during liquidation		(6,009,798)
Net assets in liquidation on June 1, 2006		122,579,044
Change in estimated net assets in liquidation		(423,739)
Net assets in liquidation at June 30, 2006	$	122,155,305

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statements of Operations

(Going Concern Basis)

(unaudited)

	Two Months Ended May 31, 2006	Three Months Ended June 30, 2005
Real Estate Operating Revenue:		
Rental revenues	$ 5,655,787	$ 8,621,527
Real Estate Operating Expenses:		
Property operating expenses -		
Operating expenses	1,746,269	2,408,557
Real estate taxes	618,892	1,282,604
General and administrative expenses	748,404	1,445,568
Interest expense	1,358,250	2,907,029
Depreciation and amortization expense	2,104,212	3,249,010
Strategic alternative and liquidation expenses	122,466	37,219
Total operating expense	6,698,493	11,329,987
Loss from continuing operations	(1,042,706)	(2,708,460)
Other Income:		
Interest income and other	33,781	7,265
Total other income	33,781	7,265
Loss before discontinued operations	(1,008,925)	(2,701,195)
Net loss from discontinued operations		(389,630)
Net loss	$ (1,008,925)	$ (3,090,825)
Net Loss per Share Basic and Diluted:		
Net loss before discontinued operations	$ (0.04)	$ (0.11)
Discontinued operations, net		(0.02)
Net loss	$ (0.04)	$ (0.13)
Weighted Average Common Shares Outstanding:		
Basic	24,128,206	24,046,982
Diluted	24,128,206	24,046,982

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statements of Operations

(Going Concern Basis)

(unaudited)

	Five Months Ended May 31, 2006	Six Months Ended June 30, 2005
Real Estate Operating Revenue:		
Rental revenues	$ 14,548,386	$ 17,343,599
Real Estate Operating Expenses:		
Property operating expenses -		
Operating expenses	4,254,952	4,594,392
Real estate taxes	1,812,772	2,553,060
General and administrative expenses	2,084,652	2,692,010
Interest expense	3,533,086	5,749,056
Depreciation and amortization expense	5,265,388	6,443,493
Strategic alternative and liquidation expenses	249,435	106,590
Total operating expense	17,200,285	22,138,601
Loss from continuing operations	(2,651,899)	(4,795,002)
Other Income:		
Interest income and other	129,747	18,004
Total other income	129,747	18,004
Loss before discontinued operations	(2,522,152)	(4,776,998)
Net earnings/(loss) from discontinued operations	15,046,598	(897,847)
Net earnings/(loss)	$ 12,524,446	$ (5,674,845)
Net Earnings/(Loss) per Share Basic and Diluted:		
Net earnings/(loss) before discontinued operations	$ (0.10)	$ (0.20)
Discontinued operations, net	0.62	(0.04)
Net earnings/(loss)	$ 0.52	$ (0.24)
Weighted Average Common Shares Outstanding:		
Basic	24,124,735	24,029,425
Diluted	24,128,907	24,029,425

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statement of Stockholders Equity

and Comprehensive Income

(Going Concern Basis)

Five Months Ended May 31, 2006

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2005	24,121,306	$ 24,121	$ 133,231,147	$ (49,838,220)	$ 83,417,048
Net earnings				12,524,446	12,524,446
Equity-based compensation	6,900	7	30,918		30,925
Balance at May 31, 2006	24,128,206	$ 24,128	$ 133,262,065	$ (37,313,774)	$ 95,972,419

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Condensed Consolidated Statements of Cash Flows

(Going Concern Basis)

(unaudited)

	Five Months Ended May 31, 2006	Six Months Ended June 30, 2005
Cash Flows from Operating Activities:		
Net earnings/(loss)	$ 12,524,446	$ (5,674,845)
Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities-		
Depreciation and amortization expense	5,314,189	9,597,064
Loss/(gain) on sale of real estate, net	(15,327,481)	21,804
Amortization of deferred financing costs	178,107	682,640
Write-off of unamortized deferred financing costs	301,463	215,993
Minority interest		(200,949)
Equity-based compensation	30,925	327,500
Changes in assets and liabilities-		
Accounts receivable	657,998	(241,842)
Deferred rent receivable	(153,787)	(744,845)
Prepaid expenses and other assets	430,378	(251,549)
Accounts payable and accrued expenses	(2,150,251)	(1,108,829)
Other accrued liabilities	(1,886,216)	(1,009,133)
Net cash flows provided by/(used in) operating activities	(80,229)	1,613,009
Cash Flows from Investing Activities:		
Capital expenditures	(203,614)	(1,235,915)
Tenant improvements	(1,354,519)	(2,648,841)
Leasing commissions	(877,590)	(844,681)
Proceeds from sales, net of closing costs	61,704,117	
Cash paid to complete deed-in-lieu transaction		(114,600)
Legal settlement proceeds		450,000
Net cash flows provided by /(used in) investing activities	59,268,394	(4,394,037)
Cash Flows from Financing Activities:		
Additions to mortgage loans and lines of credit		7,203,233
Payments of mortgage loans, lines of credit and notes payable	(58,073,709)	(1,000,000)
Regularly scheduled principal payments	(1,092,898)	(1,546,097)
Payment of deferred financing costs	(181,387)	(255,356)
Net proceeds from exercising of options and warrants		7,501
Net change in escrow deposits	1,748,315	1,057,726
Dividends paid		(3,075,074)
Net cash flows provided by/(used in) financing activities	(57,599,679)	2,391,933
Net change in cash and cash equivalents	1,588,486	(389,095)
Cash and cash equivalents, beginning of period	988,420	1,859,660
Cash and cash equivalents, end of period	$ 2,576,906	$ 1,470,565
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 3,815,831	$ 7,215,982

Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Basis of real estate involved in deed-in-lieu transaction	$	$ 5,160,022
Debt extinguishment as part of deed-in-lieu transaction	$	$ 5,565,858

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMERIVEST PROPERTIES INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2006

(unaudited)

1 Organization and Plan of Liquidation

AmeriVest Properties Inc. (the Company) is a real estate investment trust (REIT) incorporated under the laws of the State of Maryland. The Company operates commercial office buildings in selective markets and leases the commercial office buildings to small and medium size tenants. At June 30, 2006, the Company owned 12 office properties located in metropolitan Denver, Dallas and Phoenix, all of which are classified as held-for-sale and included in net assets in liquidation.

On February 9, 2006 our Board of Directors approved a plan of liquidation (the Plan), which was approved by our stockholders at the Annual Meeting of Stockholders on May 24, 2006. As discussed in Note 11, the Company has entered into a definitive agreement (the Agreement) to sell its entire portfolio of office properties to Koll/PER LLC (Koll/PER), a limited liability company owned by The Koll Company of Newport Beach, California and the Public Employee Retirement System of Idaho (PERSI). The gross purchase price is $273 million (less a reserve for capital expenditures of approximately $850,000), which includes an assumption of existing property level debt of approximately $126 million. The transaction is expected to close on a property-by-property basis beginning in mid-August 2006 as loan approvals are received from AmeriVest s mortgage lenders. Koll/PER has completed its physical due diligence, however, the agreement is subject to customary closing conditions, including each lender s approval of the buyer s assumption of the debt. There is no assurance that the transaction will close, or close on the terms described.

The Company intends to complete the sales under the terms of the agreement with Koll/PER and commence distributions to stockholders under the Plan as soon as reasonably practicable after closing of property sales. Our net assets in liquidation aggregated approximately $122.2 million or $5.06 per share on June 30, 2006. This amount represents assets at estimated net realizable values on an undiscounted basis. The amount also includes an estimated net liability for future estimated general and administrative expenses and other costs during the liquidation. As none of the property sales have actually closed, these estimates contain potential costs that could change as circumstances dictate. There can be no assurance that these estimated values will be realized, nor if the reserve for future estimated general and administrative expenses is adequate. This amount should not be taken as an indication of the timing or amount of future distributions to be made by the Company. The timing and amount of the initial and interim liquidating distributions (if any) and the final liquidating distribution will depend on the timing and amount of proceeds the Company receives upon the sale of these assets and the extent to which reserves are required.

The Company currently believes that subsequent to the disposition of our commercial office buildings and initial liquidating distributions that any remaining assets and liabilities will be transferred to a liquidating trust. The liquidating trust would continue to exist until all liabilities have been settled and proceeds from dispositions have been distributed to stockholders.

As a result of the approval of the Plan by our stockholders, we adopted the liquidation basis of accounting as of June 1, 2006 and for all subsequent periods. For all periods prior to June 1, 2006, the Company s financial statements are presented on the going concern basis of accounting.

2 Summary of Significant Accounting Polices

Liquidation Basis of Accounting

As a result of the approval of the Plan by our stockholders, we adopted the liquidation basis of accounting as of June 1, 2006, and for all subsequent periods. Accordingly, all assets have been adjusted to their estimated net realizable value. Liabilities, including estimated costs associated with implementing the Plan, have been adjusted to their estimated settlement amounts. The estimates of the Company s assets and liabilities will be periodically reviewed and adjusted as appropriate. The estimates for the valuation of real estate held-for-sale is based on the current agreement with Koll/PER, net of estimated selling costs and other potential costs relating to the liquidation. Actual values realized for assets and settlement of liabilities may differ materially from the amounts estimated. Estimated future cash flows from property operations were made based on the anticipated sales dates of the assets. However, due to the uncertainty in the timing of the anticipated sales dates and the cash flows therefrom, revenues and expenses generated by operations may differ materially from amounts estimated. These amounts are presented in the accompanying statement of net assets. The net assets represent the estimated liquidation value of our assets available to our stockholders upon liquidation. The actual settlement amounts realized for assets and settlement of liabilities may differ materially, perhaps in adverse ways, from the amounts estimated. As such, it is not possible to predict the aggregate amount or timing of future distributions to stockholders and no assurance can be given that the eventual amount of distributions to be paid will equal or exceed the estimated net assets in liquidation included in the financial statements.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein were prepared from the records of the Company in accordance with U.S. generally accepted accounting principles through May 31, 2006, and under the liquidation basis of accounting effective June 1, 2006, and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of our financial position including net assets in liquidation, changes in net assets in liquidation, results of operations, stockholders equity and cash flows for the interim periods. Such financial statements, except for liquidation basis financial statements, generally conform to the presentation reflected in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005. Interim results of operations are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements and notes therein should be read together with the financial statements and notes included in the Company s Form 10-K for the year ended December 31, 2005. Certain prior period balances have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States and the liquidation basis of accounting requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of those revisions are reflected in the period they are determined necessary.

Investment in Real Estate

Prior to June 1, 2006, investment in real estate was carried at the lower of cost or fair value. Maintenance and repairs were expensed as incurred and improvements were capitalized. The cost of building and improvements were depreciated on a straight-line basis over the estimated useful lives of the buildings and improvements, ranging primarily from 20 to 40 years and the lesser of the lease term or useful life, ranging from one to 10 years for tenant improvements. The cost of assets sold or retired and the related accumulated depreciation and/or amortization were removed from the accounts and the resulting gain or loss was reflected in operations in the period in which such sale or retirement occurred.

Prior to June 1, 2006, operating properties were individually evaluated for impairment when conditions existed which may have indicated that it was probable that the sum of expected future cash flows (on an undiscounted basis) from a rental property over the anticipated holding period was less than its historical net costs basis based on the probability of the potential property dispositions. Upon determination that a permanent impairment

had occurred, rental properties were reduced to their fair value. For properties to be disposed of, an impairment loss was recognized when the fair value of the property as determined through third-party valuations, reduced by the estimated cost to sell, was less than the carrying amount of the property measured at the time we had a commitment to sell the property that was not subject to any significant contingencies. A property to be disposed of was reported at the lower of its carrying amount or its estimated fair value, less its cost to sell. Subsequent to the date that a property was held for disposition, depreciation expense was not recorded. We did not record any impairment losses for the five months ended May 31, 2006 or the three and six months ended June 30, 2005.

As of June 1, 2006, the operating properties were adjusted to estimated fair value less estimated costs to sell and other potential costs relating to the liquidation, through the adjustment of assets and liabilities to fair value, to reflect the change to the liquidation basis of accounting.

Other Intangible Assets

Prior to June 1, 2006, intangible assets were amortized over the remaining life of the in-place leases that generally ranged from 24 to 57 months. In accordance with the adoption of the Plan, intangible assets were adjusted to their net realizable value.

Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term, highly liquid investments. For purposes of reporting cash flows, the Company considers as cash equivalents all highly liquid investments with a maturity of three months or less at the time of purchase.

Escrow Deposits

In accordance with the loan agreements for a majority of the Company s loans, the lenders require the Company to maintain reserves for real estate taxes, property insurance, capital improvements and/or tenant improvements.

Allowance for Doubtful Accounts

Prior to June 1, 2006, tenant receivables were carried net of the allowances for uncollectible current tenant receivables. An allowance was maintained for estimated losses resulting from the inability of tenants to make required payments under the terms of the lease agreement. Management exercised judgment in establishing the allowance and considered payment history, personal guarantees and credit status in developing the estimate. We had established an allowance for uncollectible accounts of $387,000 at December 31, 2005. As of June 1, 2006, we have adjusted tenant receivables and deferred rent receivable to their estimated net realizable value.

Deferred Leasing and Financing Costs

Prior to June 1, 2006, costs incurred for leasing and financing, including commissions paid to third parties for new leases or the renewal of leases and fees paid to third parties to obtain long-term financing, were capitalized as deferred assets. The deferred leasing costs were recorded at cost and amortized over the terms of the respective leases. The deferred financing costs were amortized over the term of the respective debt instrument on a straight-line basis, which approximated the effective yield. The deferred leasing and deferred finance costs were included as a component of total operating expenses and interest expense in the accompanying condensed consolidated statements of operations. In accordance with the adoption of liquidation accounting, deferred leasing costs and deferred financing costs were written off. Effective June 1, 2006, these costs will be expensed as incurred.

Revenue Recognition

Prior to June 1, 2006, the Company recorded rental revenue for the full term of each lease on a straight-line basis, which included the effects of rent steps and rent abatements. Accordingly, the Company recorded a receivable from tenants for rents that the Company expected to collect over the remaining lease term as deferred rents receivable.

In accordance with the adoption of the liquidation basis of accounting these deferred rents receivable balances were written off. Effective June 1, 2006, the Company will no longer record straight-line rental revenue. Rental revenue is recorded based on the terms of the lease agreement under the liquidation basis of accounting.

Concentrations of Credit Risk

The Company leases office space to commercial businesses in its target markets. The terms of the leases generally require basic rent payments at the beginning of each month. Credit risk associated with the lease agreements is limited to the amount of rents receivable from tenants less any related security deposits.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents. The Company maintains cash accounts at two financial institutions. The Company periodically evaluates the credit worthiness of these financial institutions, and maintains cash accounts only in large high quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. On occasion, cash on deposit may exceed federally insured amounts.

Discontinued Operations

Prior to June 1, 2006, in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets,* the results of operations for properties sold during the period or classified as held-for-sale at the end of the current period were classified as discontinued operations. The property specific components included as discontinued operations include rental revenues, operating expenses, real estate taxes, interest expense, depreciation and amortization expense, and any related impairment and gain/loss on disposition.

Share-Based Compensation

Prior to January 1, 2006, we accounted for our stock options using the intrinsic value method of accounting provided under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* (APB 25) and related interpretations, as permitted by Financial Accounting Standard Board Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Applying the intrinsic value method of accounting for our stock options, we did not record share-based compensation in our net earnings because the exercise price of our options equaled the market price of the underlying stock on the date of the grant. Accordingly, share-based compensation for our options was included as a proforma disclosure in the financial statement footnotes and continues to be provided as proforma disclosure in the financial statement footnotes for periods prior to January 1, 2006.

Effective January 1, 2003, the Company adopted a long-term incentive plan as a means to compensate certain employees and directors with equity-based compensation. The plan provides for grants in the form of non-qualified and incentive stock options, stock appreciation rights, bonus stock, stock units, performance shares, performance units, restricted stock and restricted stock units. There were no option grants under the long-term incentive plan during the six months ended June 30, 2006 or year ended December 31, 2005. During 2005, 12,000 units of restricted stock were granted, all of which were vested as of June 30, 2006. We recognized the value of the restricted stock as compensation expense based on the grant fair value of $4.00 per share over the one year vesting period. During June 2006, an additional 12,000 restricted shares were granted, all of which are unvested at June 30, 2006. Compensation expense based on the grant fair value of $4.35 will be recognized over the one year vesting period. We assume that all restricted shares will ultimately vest.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, *Share-Based Payment* (SFAS 123R), using the modified-prospective transition method. Under this transition method, the Company recognized compensation expense for all unvested options as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Compensation expense for any share-based payments granted subsequent to January 1, 2006 will be based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results for periods prior to January 1, 2006 have not been restated. As a result of the adoption of SFAS 123R, we recognized approximately $1,700 of compensation expense during the six months ended June 30, 2006. The estimated compensation on the unvested options is approximately $2,000 and will be recognized over a one year period. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended; therefore, we did not recognize a tax impact related to the adoption of SFAS 123R.

Had compensation cost for the Company s stock option plan been determined based on the fair value recognition provisions of SFAS 123, the Company s net loss and net loss per share for the three and six months ended June 30, 2005 would have been calculated as shown in the following table:

		Three Months Ended June 30, 2005		**Six Months Ended June 30, 2005**
Net loss as reported	$	(3,090,825)	$	(5,674,845)
Plus: Recognized equity-based compensation		256,910		327,500
Less: Total equity-based compensation expense based on fair value		(260,951)		(332,439)
Net loss pro forma	$	(3,094,866)	$	(5,679,784)
Loss per basic share as reported	$	(0.13)	$	(0.24)
Loss per diluted share as reported	$	(0.13)	$	(0.24)
Loss per basic share pro forma	$	(0.13)	$	(0.24)
Loss per diluted share pro forma	$	(0.13)	$	(0.24)

The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions (excludes 2005 and 2006 since there were no option grants during either year):

	2004	**2003**
Dividend yield	7.0%	7.9%
Volatility	9.3%	27.0%
Discount rate	2.7%	2.9%
Expected life (years)	2.2	4.6

The status of outstanding options granted pursuant to the Company s options plans, as of June 30, 2006, was as follows:

	Number of Options Outstanding	**Number of Options Exercisable**		**Weighted-Average Exercise Price**	**Weighted-Average Fair Value**	**Range of Exercise Prices**
December 31, 2005	98,000	86,000	$	6.34		$4.75 - 7.10
Granted at fair value						
Exercised						

Forfeited	(17,000)		$ 6.72	$6.16	6.96
Expired	(12,000)		$ 4.75		$4.75
June 30, 2006	69,000	61,000	$ 6.52	$5.70	7.10

The weighted-average contractual life of options outstanding at June 30, 2006 was approximately 2 years.

Income Taxes

We have made an election to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, as we believe we qualify as a REIT and have made all required distributions of our taxable income. It is our present intention to continue to adhere to these requirements and maintain our REIT status until the liquidation is complete.

3 Real Estate Assets

As of June 1, 2006 the operating properties were adjusted to estimated fair value less estimated selling costs. The following is a reconciliation of the estimated real estate assets as of June 30, 2006:

Purchase price per Agreement	$	273,000,000
Less :		
Capital improvement escrow		(850,000)
Estimated capital expenditures and leasing commissions		(3,438,770)
Estimated prepayment penalties if certain loans are not assumed		(4,700,000)
Estimated closing costs		(3,974,346)
Estimated additional costs relating to disposals		(4,100,000)
Real estate assets at June 30, 2006	$	255,936,884

4 Estimated Costs During the Liquidation Period

Under the liquidation basis of accounting, the Company is required to estimate and accrue the costs associated with implementing and completing the Plan. The estimated amounts can be significantly impacted due to, among other things, the costs of retaining individuals to oversee the liquidation, professional fees, insurance and other costs associated with discharging the known and contingent liabilities of the Company. As a result, the Company has recorded an estimated liability for amounts expected to be incurred during the projected period required to complete the liquidation of the Company s assets. These estimates could change materially based on the timing of the anticipated sales, the performance of the underlying assets or modifications to the Agreement. Periodically, as the facts and circumstances associated with the disposition of the Company s assets change, the estimated costs during the liquidation period will be reviewed and adjusted as appropriate.

The components of the estimated net liability for costs during the liquidation period as of June 30, 2006 are as follows:

Operating expenses of liquidating trust through dissolution	$	2,500,000
Severance costs		2,350,000
Professional fees		700,000
Additional estimated costs during liquidation period		1,750,000
Excess of projected revenues over costs		(1,072,326)
Estimated costs during the liquidation	$	6,227,674

13

5 Net Assets in Liquidation

The following is a reconciliation of total stockholders equity under the going concern basis of accounting to net assets in liquidation under the liquidation basis of accounting as of June 30, 2006:

Stockholders equity at May 31, 2006 going concern basis	$	95,972,419
Increase due to estimated net realizable value of properties		40,151,447
Decrease due to the write-off of intangible assets:		
Tenant leasing commissions		(2,796,139)
Deferred rents receivable		(3,809,145)
Deferred financing costs		(1,123,191)
Increase due to the write-off of deferred revenue		193,451
Decrease due to the estimated net costs during liquidation		(6,009,798)
Adjustments to reflect the change to the liquidation basis of accounting		26,606,625
Estimated value of net assets in liquidation at June 1, 2006		122,579,044
Change in estimated net assets in liquidation		(423,739)
Estimated value of net assets in liquidation at June 30, 2006	$	122,155,305

Based on the shares outstanding on June 30, 2006, the net assets in liquidation at June 30, 2006 would result in liquidation distributions per share of approximately $5.06. These estimates for liquidation distributions per share include projections of costs and expenses expected to be incurred during the period required to complete the Plan. These projections could change materially based on the timing of any sales, the performance of the underlying assets and change in the underlying assumptions of the projected cash flows.

6 Dispositions

On January 23, 2006, the Company sold Financial Plaza, a 310,838 square foot office property located in Phoenix, for $55.0 million to a publicly traded REIT, recording a net gain on the sale of approximately $15.3 million in the first quarter of 2006. The net cash proceeds of approximately $53 million were used to repay an outstanding first mortgage balance of approximately $23 million and approximately $30 million of indebtedness under the Company s Unsecured Credit Facility.

On January 24, 2006, the Company sold Keystone Office Park, a 114,980 square foot office property located in Indianapolis, for approximately $9.4 million to a foreign institutional investor. Subsequent to recording an impairment of $1.6 million on the property in the fourth quarter of 2005, the Company recognized a net gain of approximately $65,000. Of the $8.6 million in net proceeds received from the sale, the Company used approximately $4.6 million to pay the outstanding mortgage balances and approximately $300,000 to repay the remaining balance due on Unsecured Credit Facility leaving the Company with approximately $3.7 million in cash.

7 Discontinued Operations

Prior to June 1, 2006, in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* , the operating results of properties sold during the period or designated as held-for-sale and any related impairment and gain/loss on the disposition were included in discontinued operations for the five months ended May 31, 2006 and the three and six months ended June 30, 2005.

During the five months ended May 31, 2006, the Company completed the disposition of Financial Plaza and Keystone Office Park. The Company wrote-off unamortized deferred financing costs in connection with the dispositions of $301,463 and incurred prepayment penalties of $203,540. The Company recognized net gains of approximately $15.3 million.

During 2005, the Company completed the disposition of Panorama Falls, AmeriVest Plaza at Inverness and Chateau Plaza and completed a Deed-In-Lieu Agreement to return 13 non-core Texas State Buildings to the lender. During the six months ended June 30, 2005, the Company wrote-off unamortized deferred financing costs of approximately $215,993, and recognized a loss of approximately $22,000 in connection with the Texas State Buildings dispositions, both of which are reflected in discontinued operations during the six months ended June 30, 2005.

The following is a summary of the operating results of these properties included in discontinued operations:

	Two Months Ended May 31, 2006	Three Months Ended June 30, 2005	Five Months Ended May 31, 2006	Six Months Ended June 30, 2005
Rental revenue	$	$ 3,620,453	$ 540,283	$ 7,800,958
Property operating expenses -				
Operating expenses		(1,106,941)	(133,276)	(2,351,751)
Real estate taxes		(557,683)	(59,275)	(1,152,055)
Interest expense		(1,006,557)	(123,612)	(2,063,093)
Deferred financing costs and prepayment penalties associated with the disposition of real estate			(505,003)	(215,993)
Depreciation and amortization expense		(1,451,769)		(3,095,058)
Total expense		(4,122,950)	(821,166)	(8,877,950)
Minority interest		112,867		200,949
Gain/(loss) on sale			15,327,481	(21,804)
Net earnings/(loss) from discontinued operations	$	$ (389,630)	$ 15,046,598	$ (897,847)

8 Mortgage Loans, Notes Payable, and Lines of Credit

The Company finances its properties with mortgage loans and other debt instruments, such as lines of credit. The following is a summary of the Company s outstanding mortgage loans, notes payable and lines of credit, classified by interest type (fixed or variable) and in order of maturity at June 30, 2006 and December 31, 2005:

			June 30, 2006		December 31, 2005	
Lender	**Mortgaged Property**	**Maturity Date(1)**	**Principal Balance**	**Interest Rate(2)**	**Principal Balance**	**Interest Rate(2)**
Fixed Rate						
GEMSA	Hampton Court	11/1/2007	$ 7,900,000	5.48%	$ 7,900,000	5.48%
Greenwich Capital Financial Products	Parkway Centre II Centerra Southwest Gas Building					