

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

BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
November 12, 2002

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 September 30, 2002  
-----

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  
-----

56-1574675  
-----

State or other jurisdiction of  
incorporation or organization  
No.)

(I.R.S. Employer  
Identification

301 S. College Street, Suite 3850, Charlotte, NC 28202-6032  
-----

(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 \_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's  
classes of common stock, as of November 4, 2002 (the latest practicable date).

Common Stock, \$.01 par value  
-----  
(Class)

5,807,988  
-----  
(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 | 13       |
| 3        | Quantitative and Qualitative Disclosures About Market Risk                            | 23       |
| 4        | Controls and Procedures                                                               | 24       |
|          | PART II - Other Information                                                           |          |
| 6        | Exhibits and Reports on Form 8-K                                                      | 24       |

## PART I - Financial Information

## Item 1. Financial Statements.

## BNP RESIDENTIAL PROPERTIES, INC.

-----  
Consolidated Balance Sheets

|                                                            | September 30<br>2002 | December 31<br>2001 |
|------------------------------------------------------------|----------------------|---------------------|
|                                                            | -----                | -----               |
|                                                            | (Unaudited)          |                     |
| Assets                                                     |                      |                     |
| Real estate investments at cost:                           |                      |                     |
| Apartment properties                                       | \$275,174,759        | \$225,174,759       |
| Restaurant properties                                      | 39,158,921           | 39,158,921          |
|                                                            | -----                | -----               |
|                                                            | 314,333,680          | 264,333,680         |
| Less accumulated depreciation                              | (47,071,017)         | (47,071,017)        |
|                                                            | -----                | -----               |
|                                                            | 267,262,663          | 217,262,663         |
| Cash and cash equivalents                                  | 667,944              | 667,944             |
| Other current assets                                       | 5,168,055            | 5,168,055           |
| Notes receivable, net of reserve                           | 100,000              | 100,000             |
| Intangible assets, net of accumulated amortization:        |                      |                     |
| Intangible related to acquisition of management operations | 1,115,088            | 1,115,088           |

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

|                                                                                                                                                                        |               |      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------|
| Deferred financing costs                                                                                                                                               | 1,248,855     |      |
| Total assets                                                                                                                                                           | \$275,562,605 | \$22 |
| Liabilities and Shareholders' Equity                                                                                                                                   |               |      |
| Deed of trust and other notes payable                                                                                                                                  | \$211,092,488 | \$16 |
| Accounts payable and accrued expenses                                                                                                                                  | 3,176,801     |      |
| Deferred revenue and security deposits                                                                                                                                 | 1,291,113     |      |
| Deferred credit for defeasance of interest,<br>net of accumulated amortization                                                                                         | 375,040       |      |
| Total liabilities                                                                                                                                                      | 215,935,442   | 16   |
| Minority interest in Operating Partnership                                                                                                                             | 18,597,747    | 1    |
| Shareholders' equity:                                                                                                                                                  |               |      |
| Preferred stock, \$.01 par value, 10,000,000 shares<br>authorized; issued and outstanding shares--<br>454,545 at September 30, 2002,<br>227,273 at December 31, 2001   | 5,000,000     |      |
| Common stock, \$.01 par value, 100,000,000 shares<br>authorized; issued and outstanding shares--<br>5,807,988 at September 30, 2002,<br>5,744,873 at December 31, 2001 | 58,080        |      |
| Additional paid-in capital                                                                                                                                             | 70,493,644    | 6    |
| Dividend distributions in excess of net income                                                                                                                         | (34,522,308)  | (3)  |
| Total shareholders' equity                                                                                                                                             | 41,029,416    | 4    |
| Total liabilities and shareholders' equity                                                                                                                             | \$275,562,605 | \$22 |

3

BNP RESIDENTIAL PROPERTIES, INC.

## Consolidated Statements of Operations (Unaudited)

|                           | Three months ended<br>September 30 |              | Nine months ended<br>September 30 |     |
|---------------------------|------------------------------------|--------------|-----------------------------------|-----|
|                           | 2002                               | 2001         | 2002                              |     |
|                           | (Adjusted)                         |              |                                   | (Ad |
| Revenues                  |                                    |              |                                   |     |
| Apartment rental income   | \$ 8,648,684                       | \$ 7,690,482 | \$23,993,542                      | \$  |
| Restaurant rental income  | 1,005,320                          | 1,005,319    | 3,015,958                         |     |
| Management fee income     | 258,297                            | 93,863       | 839,091                           |     |
| Interest and other income | 24,143                             | 362,871      | 130,337                           |     |
|                           | 9,936,444                          | 9,152,535    | 27,978,928                        |     |
| Expenses                  |                                    |              |                                   |     |
| Apartment operations      | 3,304,638                          | 2,850,283    | 9,040,369                         |     |
| Apartment administration  | 311,272                            | 227,764      | 930,692                           |     |

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

|                                                                 |            |            |              |
|-----------------------------------------------------------------|------------|------------|--------------|
| Corporate administration                                        | 399,602    | 437,441    | 1,488,762    |
| Depreciation                                                    | 2,345,959  | 1,946,325  | 6,313,099    |
| Amortization of deferred<br>loan costs                          | 82,427     | 46,128     | 180,377      |
| Interest                                                        | 3,049,032  | 2,769,358  | 8,211,104    |
|                                                                 | 9,492,930  | 8,277,299  | 26,164,403   |
| Income before<br>minority interest and<br>extraordinary item    | 443,514    | 875,236    | 1,814,525    |
| Minority interest in<br>Operating Partnership                   | 89,710     | 201,173    | 376,921      |
| Income before<br>extraordinary item                             | 353,804    | 674,063    | 1,437,604    |
| Extraordinary item - loss on<br>early extinguishment<br>of debt | -          | 99,577     | 73,297       |
| Net income                                                      | 353,804    | 574,486    | 1,364,307    |
| Cumulative preferred dividend                                   | 72,603     | -          | 196,576      |
| Income available to<br>common shareholders                      | \$ 281,201 | \$ 574,486 | \$ 1,167,731 |
| Per common share:                                               |            |            |              |
| Basic earnings per share -                                      |            |            |              |
| Before extraordinary item                                       | \$0.06     | \$0.12     | \$0.25       |
| Extraordinary item                                              | -          | (0.02)     | (0.01)       |
| Available to shareholders                                       | 0.05       | 0.10       | 0.20         |
| Diluted earnings per share -                                    |            |            |              |
| Before extraordinary item                                       | \$0.06     | \$0.12     | \$0.24       |
| Extraordinary item                                              | -          | (0.02)     | (0.01)       |
| Available to shareholders                                       | 0.05       | 0.10       | 0.20         |
| Dividends declared                                              | 0.31       | 0.31       | 0.93         |
| Weighted average common<br>shares outstanding                   | 5,797,197  | 5,717,040  | 5,776,158    |

4

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity  
(Unaudited)

|                           | Preferred Stock<br>Shares | Preferred Stock<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>paid-in<br>capital | Divid<br>distribu<br>in exce<br>net in |
|---------------------------|---------------------------|---------------------------|------------------------|------------------------|----------------------------------|----------------------------------------|
| Balance December 31, 2001 | 227,273                   | \$2,500,000               | 5,744,873              | \$57,449               | \$69,872,958                     | \$ (30,396)                            |

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

|                                |         |             |           |          |              |             |
|--------------------------------|---------|-------------|-----------|----------|--------------|-------------|
| Common stock issued            | -       | -           | 21,820    | 218      | 251,556      |             |
| Costs of preferred stock issue | -       | -           | -         | -        | (5,313)      |             |
| Dividends paid - preferred     | -       | -           | -         | -        | -            | (2,780)     |
| Dividends paid - common        | -       | -           | -         | -        | -            | (1,780)     |
| Net income                     | -       | -           | -         | -        | -            | 492         |
| Balance March 31, 2002         | 227,273 | 2,500,000   | 5,766,693 | 57,667   | 70,119,201   | (31,687)    |
| Common stock issued            | -       | -           | 17,817    | 178      | 215,234      |             |
| Dividends paid - preferred     | -       | -           | -         | -        | -            | (61,780)    |
| Dividends paid - common        | -       | -           | -         | -        | -            | (1,780)     |
| Net income                     | -       | -           | -         | -        | -            | 517         |
| Balance June 30, 2002          | 227,273 | 2,500,000   | 5,784,510 | 57,845   | 70,334,435   | (33,018)    |
| Common stock issued            | -       | -           | 23,478    | 235      | 260,265      |             |
| Preferred stock issued         | 227,272 | 2,500,000   | -         | -        | (101,056)    |             |
| Dividends paid - preferred     | -       | -           | -         | -        | -            | (63,794)    |
| Dividends paid - common        | -       | -           | -         | -        | -            | (1,794)     |
| Net income                     | -       | -           | -         | -        | -            | 353         |
| Balance September 30, 2002     | 454,545 | \$5,000,000 | 5,807,988 | \$58,080 | \$70,493,644 | \$ (34,522) |

5

## BNP RESIDENTIAL PROPERTIES, INC.

### Consolidated Statements of Cash Flows (Unaudited)

|                                                                         | Nine months end<br>September 30<br>2002 |    |
|-------------------------------------------------------------------------|-----------------------------------------|----|
| Operating activities:                                                   |                                         |    |
| Net income                                                              | \$ 1,364,307                            | \$ |
| Adjustments to reconcile net income to net cash provided by operations: |                                         |    |
| Extraordinary item - loss on early extinguishment of debt               | 73,297                                  |    |
| Minority interest in Operating Partnership                              | 376,921                                 |    |
| Depreciation and amortization of intangibles                            | 6,493,476                               |    |
| Amortization of defeasance credit                                       | (124,992)                               |    |
| Changes in operating assets and liabilities:                            |                                         |    |
| Prepaid expenses and other current assets                               | (2,383,799)                             |    |
| Accounts payable and accrued expenses                                   | 1,581,389                               |    |
| Deferred revenue and security deposits                                  | (239,877)                               |    |
| Net cash provided by operating activities                               | 7,140,722                               |    |
| Investing activities:                                                   |                                         |    |

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

|                                                             |              |       |
|-------------------------------------------------------------|--------------|-------|
| Acquisition of apartment properties                         | (29,768,057) |       |
| Additions to apartment properties, net                      | (2,125,720)  |       |
| Sale of restaurant property                                 | -            |       |
| Acquisition of minority interest in Management Company      | -            |       |
|                                                             | -----        | ----- |
| Net cash used in investing activities                       | (31,893,777) |       |
| Financing activities:                                       |              |       |
| Issuance of preferred stock                                 | 2,493,631    |       |
| Issuance of common stock                                    | 630,570      |       |
| Redemption of Operating Partnership minority units          | -            |       |
| Distributions to Operating Partnership minority unitholders | (1,597,446)  |       |
| Dividends paid to preferred shareholder                     | (127,397)    |       |
| Dividends paid to common shareholders                       | (5,362,725)  |       |
| Proceeds from notes payable                                 | 42,674,194   |       |
| Principal payments on notes payable                         | (14,245,250) |       |
| Payment of deferred financing costs                         | (462,194)    |       |
|                                                             | -----        | ----- |
| Net cash provided by (used in) financing activities         | 24,003,383   |       |
|                                                             | -----        | ----- |
| Net (decrease) increase in cash and cash equivalents        | (749,672)    |       |
| Cash and cash equivalents at beginning of period            | 1,417,616    |       |
|                                                             | -----        | ----- |
| Cash and cash equivalents at end of period                  | \$ 667,944   | \$    |
|                                                             | =====        | ===== |

6

BNP RESIDENTIAL PROPERTIES, INC.

-----  
Notes to Consolidated Financial Statements - September 30, 2002  
(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, 2001. We derived the amounts in the balance sheet at December 31, 2001, from the financial statements included in our 2001 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals, except as discussed below) 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 2001 Annual Report on Form 10-K.

We adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized after December 31, 2001, but are subject to annual impairment tests in accordance with the Statement. We determined that the intangible related to our 1994 acquisition of management operations, net of accumulated amortization, as of January 1, 2002, is not impaired, and we plan to perform future annual tests as of October 1 of each year. We have adjusted the 2001 comparative amounts in our consolidated financial statements to exclude this amortization expense and

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

conform to the 2002 presentation as follows:

|                                                              | 2001 as<br>Currently<br>Presented | Adjustments | 2002<br>Pro forma |
|--------------------------------------------------------------|-----------------------------------|-------------|-------------------|
| Three months ended September 30, 2001                        |                                   |             |                   |
| Revenues                                                     | \$9,152,535                       | \$ -        |                   |
| Expenses                                                     | 8,277,299                         | (101,550)   |                   |
| Income before minority interest and<br>extraordinary item    | 875,236                           | 101,550     |                   |
| Minority interest in Operating Partnership                   | 201,173                           | 23,338      |                   |
| Income before extraordinary item                             | 674,063                           | 78,212      |                   |
| Extraordinary item - loss on early<br>extinguishment of debt | 99,577                            | -           |                   |
| Net income                                                   | \$ 574,486                        | \$ 78,212   |                   |

7

|                                                              | 2001 as<br>Currently<br>Presented | Adjustments | 2002<br>Pro forma |
|--------------------------------------------------------------|-----------------------------------|-------------|-------------------|
| Nine months ended September 30, 2001                         |                                   |             |                   |
| Revenues                                                     | \$27,349,138                      | \$ -        | \$                |
| Expenses                                                     | 25,034,536                        | (304,650)   |                   |
| Income before minority interest and<br>extraordinary item    | 2,314,602                         | 304,650     |                   |
| Minority interest in Operating Partnership                   | 532,558                           | 70,096      |                   |
| Income before extraordinary item                             | 1,782,044                         | 234,554     |                   |
| Extraordinary item - loss on early<br>extinguishment of debt | 99,577                            | -           |                   |
| Net income                                                   | \$ 1,682,467                      | \$ 234,554  | \$                |

## 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

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

intercompany balances and transactions have been eliminated in the consolidated financial statements.

Effective January 2001, the accounts of the Operating Partnership include BNP Management, Inc. (the "Management Company"). Prior to January 2001, the Operating Partnership had a 1% voting interest and 95% economic interest in the Management Company, and used the equity method to account for this investment. In January 2001, the Operating Partnership acquired the outstanding 99% voting interest and 5% economic interest in the Management Company. This transaction resulted in a net increase in cash included on our consolidated balance sheet of approximately \$373,000.

### Note 3. Apartment properties acquisitions

Effective September 18, 2002, we acquired Alta Harbour Apartments for a contract price of \$19.3 million, less approximately \$130,000 in credits given by the seller. Through September 30, 2002, we have incurred and capitalized other direct costs of approximately \$30,000.

Effective May 31, 2002, we acquired Barrington Place Apartments and Brookford Place Apartments for a contract price of approximately \$32.1 million. Consideration for this acquisition consisted of the following:

- o We assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million.
- o We assumed and retired existing liabilities of the former owners totaling approximately \$10.0 million.
- o We issued approximately 147,000 Operating Partnership units with an imputed value of \$12.00 per unit, or approximately \$1.8 million.

8

Through September 30, 2002, we have incurred and capitalized other direct costs of approximately \$90,000 related to this acquisition.

### Note 4. Long-term debt transactions

In conjunction with the acquisition of Alta Harbour Apartments, we executed a \$15.9 million first deed of trust note payable, secured by the assets and assignment of rents of Alta Harbour Apartments. This loan provides for interest at 5.85% and monthly payments including principal and interest of approximately \$94,000, with maturity in September 2012. We paid and recorded deferred loan costs of approximately \$150,000 related to this loan.

In conjunction with the acquisition of Barrington Place Apartments and Brookford Place Apartments, we assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million. This loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately \$136,000, with maturity in November 2010. We paid and recorded deferred loan costs of approximately \$160,000 related to this loan assumption.

In June 2002, we applied \$4.9 million proceeds from a fixed-rate loan to retire existing loan obligations of the former owners of Barrington Place Apartments and Brookford Place Apartments. A deed of trust and assignment of rents of Brookford Place Apartments secure this loan. This loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$32,000, with maturity in August 2012. We paid and

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

recorded deferred loan costs of approximately \$60,000 related to this loan transaction.

In conjunction with the Alta Harbour acquisition, we issued \$2.5 million in preferred stock (discussed in Note 5). The balance of funds required for the Alta Harbour and Barrington Place/Brookford Place acquisitions came from operating cash and \$7.0 million in draws on our revolving line of credit secured by Latitudes Apartments. We also drew an additional \$0.5 million on this revolving line of credit to fund improvements at apartment properties.

In January 2002, we applied a \$6.0 million draw on our line of credit secured by Latitudes Apartments to retire a note payable in the amount of \$6.1 million, secured by a deed of trust and assignment of rents of Oakbrook Apartments. In February 2002, we subsequently issued a note payable in the amount of \$7.9 million secured by a deed of trust and assignment of rents of Oakbrook Apartments. The note provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$52,000, with maturity in February 2012. We applied the proceeds of the Oakbrook note to reduce our Latitudes line of credit. In conjunction with the February refinance transaction, we paid and recorded deferred loan costs of approximately \$90,000.

In conjunction with the January retirement, we wrote off unamortized loan costs of approximately \$95,000. We have reflected this write-off, net of minority interests' share, in the financial statements as an extraordinary item.

9

### Note 5. Shareholders' Equity

In September 2002, we issued 227,272 shares of our preferred stock to a single investor for proceeds of \$2.5 million. We issued these shares under the terms of the December 2001 investment agreement with that investor for the purchase of up to 454,545 share of Series B Cumulative Convertible Preferred Stock at \$11.00 per share.

In August 2002, we issued 20,443 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$227,000. During the first and second quarters of 2002, we issued approximately 34,000 shares of our common stock through this Plan.

In addition, during the third quarter of 2002, we issued 3,035 shares of our common stock, in a non-cash transaction, to acquire the same number of Operating Partnership units from a former minority unitholder. During the first quarter of 2002, we issued 5,562 shares of our common stock in a similar transaction.

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

| Three months ended |      | Nine months ended |
|--------------------|------|-------------------|
| September 30       |      | September 30      |
| 2002               | 2001 | 2002              |
| -----              |      | -----             |
| (Adjusted)         |      | (                 |

#### Numerators:

Numerator for basic  
earnings per share -  
Income before

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

|                                                                                          |           |            |             |
|------------------------------------------------------------------------------------------|-----------|------------|-------------|
| extraordinary item                                                                       | \$353,804 | \$ 674,063 | \$1,437,604 |
| Extraordinary item                                                                       | -         | (99,577)   | (73,297)    |
| Cumulative preferred dividend                                                            | (72,603)  | -          | (196,576)   |
|                                                                                          | -----     | -----      | -----       |
| Income available to<br>common shareholders                                               | \$281,201 | \$ 574,486 | \$1,167,731 |
|                                                                                          | =====     | =====      | =====       |
| Numerator for diluted<br>earnings per share -<br>Income before<br>extraordinary item (1) | \$443,514 | \$ 875,236 | \$1,814,525 |
| Extraordinary item (1)                                                                   | -         | (129,239)  | (95,032)    |
| Cumulative preferred dividend                                                            | (72,603)  | -          | (196,576)   |
|                                                                                          | -----     | -----      | -----       |
| Income available to<br>common shareholders (1)                                           | \$370,911 | \$ 745,997 | \$1,522,917 |
|                                                                                          | =====     | =====      | =====       |

10

|                                                                                                                | Three months ended<br>September 30<br>2002 | 2001      | Nine months ended<br>September 30<br>2002 |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------|-------------------------------------------|
|                                                                                                                | (Adjusted)                                 |           |                                           |
| Denominators:                                                                                                  |                                            |           |                                           |
| Denominator for basic<br>earnings per share -<br>weighted average shares<br>outstanding                        | 5,797,197                                  | 5,717,040 | 5,776,158                                 |
| Effect of dilutive securities:                                                                                 |                                            |           |                                           |
| Convertible Operating<br>Partnership units                                                                     | 1,845,056                                  | 1,705,897 | 1,766,457                                 |
| Stock options (2)                                                                                              | 7,484                                      | 4,301     | 10,971                                    |
|                                                                                                                | -----                                      | -----     | -----                                     |
| Denominator for diluted<br>earnings per share - adjusted<br>weighted average shares and<br>assumed conversions | 7,649,737                                  | 7,427,238 | 7,553,586                                 |
|                                                                                                                | =====                                      | =====     | =====                                     |

During the third quarter of 2002, we identified an error in our calculation of diluted earnings per share as previously reported for the first and second quarters of 2002. The convertible preferred shares outstanding are antidilutive--the cumulative preferred dividend should have been deducted, and the preferred shares should not have been added back, for calculation of diluted earnings per common share. Corrected amounts for earnings per common share are

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

as follows:

|                              | Six Months<br>Ended<br>June 30, 2002 | Three months ended<br>June 30, 2002 | March |
|------------------------------|--------------------------------------|-------------------------------------|-------|
| Basic earnings per share -   |                                      |                                     |       |
| Before extraordinary item    | \$0.19                               | \$0.09                              |       |
| Extraordinary item           | (0.01)                               | -                                   |       |
| Available to shareholders    | 0.15                                 | 0.07                                |       |
| Diluted earnings per share - |                                      |                                     |       |
| Before extraordinary item    | 0.18                                 | 0.09                                |       |
| Extraordinary item           | (0.01)                               | -                                   |       |
| Available to shareholders    | 0.15                                 | 0.08                                |       |

11

## Note 6. Subsequent events

On October 17, 2002, the Board of Directors declared a regular quarterly cash dividend of \$0.31 per share to be paid on November 15, 2002, to common shareholders of record on November 1, 2002. The Board of Directors also authorized the payment of dividends totaling \$72,603 to the Series B Preferred shareholder in accordance with the investment agreement for those shares.

12

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

This Quarterly Report contains forward-looking statements within the 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;

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

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 manage 32 multi-family communities containing 7,392 units. Of these, we own 18 apartment communities containing 4,427 units. Third parties own the remaining 14 communities, containing 2,965 units, and we manage them on a contract basis. In addition to our apartment communities, we own 42 restaurant properties that we lease to a third party under a master lease on a triple-net basis.

13

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 28202-6032, telephone 704/944-0100.

### Results of Operations

#### Revenues

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

Total revenues in the third quarter of 2002 were \$9.9 million, an increase of 8.6% compared to the third quarter of 2001. Total revenues through the first nine months of 2002 were \$28.0 million, an increase of 2.3% compared to the first nine months of 2001. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for approximately 90% of total revenues in the third quarter and 89% through the first nine months of 2002.

Apartment rental income totaled \$8.6 million in the third quarter of 2002, an increase of 12.5% compared to the third quarter of 2001. Through the first nine months of 2002, apartment rental income totaled \$24.0 million, an increase of 3.2% compared to the first nine months of 2001. These increases are primarily due to apartment property acquisitions in second and third quarter of 2002, which contributed approximately \$1.0 million to apartment rental income in the third quarter, and \$1.4 million to apartment rental income in the first nine months of 2002.

On a "same units" basis (those apartment units that we owned throughout the first nine months of both years), apartment rental income decreased by 1.3% for the third quarter of 2002 compared to the third quarter of 2001, and by 2.8% for the first nine months of 2002 compared to the first nine months of 2001. These decreases were the result of generally consistent occupancy and slight declines in average revenue per occupied unit.

For the third quarter of 2002, overall average economic occupancy increased by 0.8%, while average revenue per occupied unit declined by 1.7%, compared to the third quarter of 2001. For the first nine months of 2002, overall average economic occupancy declined by 1.3%, while average revenue per occupied unit declined by 1.3%, compared to the first nine months of 2001. These comparisons are generally consistent between overall results and same units results.

For the third quarter of 2002, same units average economic occupancy increased by 1.0%, while average revenue per occupied unit declined by 2.1%, compared to the third quarter of 2001. For the first nine months of 2002, same units average economic occupancy declined by 1.2%, while average revenue per occupied unit declined by 1.6%, compared to the first nine months of 2001.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the third quarter and first nine months of 2002 follow:

|                      |                                    | Three months ended<br>September 30, 2002 |                                                          | Nine months<br>September 30,     |  |
|----------------------|------------------------------------|------------------------------------------|----------------------------------------------------------|----------------------------------|--|
|                      | Number<br>of<br>apartment<br>units | Average<br>economic<br>occupancy         | Average<br>monthly<br>revenue<br>per<br>occupied<br>unit | Average<br>economic<br>occupancy |  |
| Abbington Place      | 360                                | 95.1%                                    | \$758                                                    | 93.2%                            |  |
| Allerton Place       | 228                                | 92.8%                                    | 774                                                      | 92.3%                            |  |
| Alta Harbour (1)     | 290                                |                                          |                                                          |                                  |  |
| Barrington Place (2) | 348                                | 92.2%                                    | 784                                                      | 91.5%                            |  |

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

|                     |       |       |     |       |
|---------------------|-------|-------|-----|-------|
| Brookford Place (2) | 108   | 92.6% | 710 | 91.8% |
| Chason Ridge        | 252   | 96.5% | 737 | 96.5% |
| Harris Hill         | 184   | 93.1% | 683 | 92.1% |
| Latitudes           | 448   | 97.3% | 836 | 97.2% |
| Madison Hall        | 128   | 91.4% | 614 | 94.4% |
| Oakbrook            | 162   | 90.3% | 758 | 91.6% |
| Oak Hollow          | 461   | 88.4% | 635 | 90.7% |
| Paces Commons       | 336   | 94.1% | 655 | 90.5% |
| Paces Village       | 198   | 93.5% | 671 | 88.7% |
| Pepperstone         | 108   | 97.2% | 682 | 94.9% |
| Savannah Place      | 172   | 93.0% | 733 | 92.5% |
| Summerlyn Place     | 140   | 93.3% | 815 | 94.7% |
| Waterford Place     | 240   | 96.5% | 844 | 94.8% |
| Woods Edge          | 264   | 92.5% | 748 | 92.3% |
| All apartments (1)  | 4,137 |       |     |       |
| - 2002              |       | 93.5% | 737 | 93.0% |
| - 2001              |       | 92.8% | 750 | 94.2% |
| Same units          | 3,681 |       |     |       |
| - 2002              |       | 93.7% | 734 | 93.1% |
| - 2001              |       | 92.8% | 750 | 94.2% |

Overbuilding of apartment properties, a weak economy and extremely low home mortgage rates have led to intense competition for residents in our apartment markets during the last two years. While we believe we are beginning to see some signs of strengthening in our apartment markets, we cannot predict this with any level of certainty at this time.

We remain committed to our markets and our focus on the middle market apartment properties. We have continued to add to and improve our apartment portfolio by acquiring three apartment properties so far this year. With these additions, we now own 18 apartment properties containing 4,427 apartment units. Our portfolio consists of good quality middle market apartments in excellent locations. Our goal in operating our properties is to provide the nicest apartment available in our price range. We provide a quality apartment for a reasonable price. With our locations and emphasis on value, we believe we can compete effectively with the newer, more highly priced properties. In addition, we believe that our choice to operate in middle market apartments has somewhat mitigated the impact of the competitive conditions we currently face.

15

Restaurant rental income was \$1.0 million in the third quarters of both 2002 and 2001. Through the first nine months of 2002, restaurant rental income was \$3.0 million, a 1.0% decrease compared to the first nine months of 2001. This decrease was the result of the sale of one restaurant property in the second quarter of 2001. Restaurant rental income for both 2002 and 2001 was the minimum rent. "Same store" (those restaurant properties that operated throughout the first nine months of both 2002 and 2001) sales at our restaurant properties decreased by 4.7% for the third quarter and 2.2% for the first nine months of 2002 compared to the same periods in 2001.

Through September 30, 2002, we have sold five of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement which 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

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

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 \$258,000 in the third quarter of 2002 compared to \$94,000 in the third quarter of 2001. Through the first nine months of 2002, management fee income totaled \$839,000, compared to \$311,000 through the first nine months of 2001. This increase is primarily attributable to a significant increase in the number of managed properties in the fourth quarter of 2001 and early 2002. We expect these comparisons to decline slightly due to our acquisition of Barrington Place and Brookford Place, which we previously managed under third-party management contracts from October 2001 through May 2002. Management fee income related to these two properties totaled \$68,000 for the first five months of 2002.

Interest and other income totaled \$24,000 in the third quarter of 2002 compared to \$363,000 in the third quarter of 2001. Through the first nine months of 2002, interest and other income totaled \$130,000, compared to \$744,000 through the first nine months of 2001. These comparisons reflect the impact of non-routine income totaling approximately \$326,000 in the third quarter of 2001, and \$539,000 in the first nine months of 2001, as well as a decline in interest income during the first nine months of 2002.

### Expenses

Total expenses, including non-cash charges for depreciation and amortization, were \$9.5 million in the third quarter of 2002, an increase of 14.7% compared to the third quarter of 2001. Through the first nine months of 2002, total expenses were \$26.2 million, an increase of 4.5% compared to the first nine months of 2001.

Effective January 1, 2002, in accordance with current accounting guidance, we no longer amortize the intangible related to our 1994 acquisition of management operations. We have adjusted the 2001 comparative amounts to exclude this amortization expense and conform to the 2002 presentation in our financial statements. This adjustment decreases our amortization expense by approximately \$102,000 for the third quarter of 2001 and \$305,000 for the first nine months of 2001 from the amounts that we previously reported.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the third quarter of 2002 totaled \$3.3 million, a 15.9% increase compared to the third quarter of 2001. For the first nine months of 2002, apartment operations expense totaled \$9.0 million, an 8.8% increase compared to the first nine months of 2001. These amounts include

16

approximately \$386,000 for the quarter, and \$449,000 for the first nine months, in apartment operations expenses for properties we acquired in 2002.

On a same units basis, apartment operations expense increased 2.4% in the third quarter and 3.4% in the first nine months of 2002 compared to 2001. These increases reflect a significant increase in property insurance expense, as well as higher costs associated with marketing and maintenance.

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

Apartment administration expense (the costs associated with oversight,

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

accounting and support of our apartment management activities for both owned and third party properties) was \$311,000 in the third quarter of 2002, a 36.7% increase compared to the third quarter of 2001. Through the first nine months of 2002, apartment administration expense was \$931,000, a 25.9% increase compared to the first nine months of 2001. These increases are attributable to a significant increase in the number of managed properties in the fourth quarter of 2001 and early 2002.

Corporate administration expense was \$400,000 in the third quarter of 2002, a decrease of 8.7% compared to the third quarter of 2001. Through the first nine months of 2002, corporate administration expense was \$1.5 million, an increase of 2.4% compared to the first nine months of 2001.

Depreciation expense totaled \$2.3 million in the third quarter of 2002, a 20.5% increase compared to the third quarter of 2001. Through the first nine months of 2002, depreciation expense totaled \$6.3 million, an 8.3% increase compared to the first nine months of 2001. These increases are 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 \$82,000 in the third quarter, and \$180,000 through the first nine months, of 2002. Increases in these amounts compared to 2001 reflect the impact of loan costs associated with financing transactions in 2002. As discussed above, we no longer amortize the intangible related to acquisition of management operations, and we have adjusted the 2001 comparative financial statements to exclude this amortization.

Interest expense totaled \$3.0 million in the third quarter of 2002, a 10.1% increase compared to the third quarter of 2001. This increase reflects the impact of approximately \$49 million in new debt related to apartment acquisitions in the second and third quarters of 2002. For the first nine months of 2002, interest expense was \$8.2 million, a 4.1% decrease compared to the first nine months of 2001. The decrease in interest expense was the result of the combined effect of lower interest rates on our lines of credit and the impact of refinancing two fixed-rate loans at lower rates during 2001 and early 2002. Variable interest rates have declined almost 5% since the beginning of 2001. Overall, weighted average interest rates were 6.2% for the third quarter and first nine months of 2002, compared to 6.8% for the third quarter and 7.0% for the first nine months of 2001.

During the first quarter of 2002, we refinanced long-term debt related to Oakbrook Apartments. This refinance is described below in our discussion of Capital Resources and Liquidity. In conjunction with this transaction, we wrote off unamortized loan costs of \$95,000.

17

We have 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 year per share. The cumulative preferred dividend totals approximately \$73,000 for the third quarter of 2002, and approximately \$197,000 for the first nine months of 2002.

Net income

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

Income available to common shareholders, after the cumulative preferred dividend, was \$281,000 for the third quarter of 2002, a decrease of 51.1% compared to the third quarter of 2001. For the first nine months of 2002, income available to common shareholders, after the extraordinary item recorded in the first quarter and cumulative preferred dividend for three quarters, was \$1,168,000, a 30.6% decrease compared to the first nine months of 2001.

Income before extraordinary items and cumulative preferred dividend was \$354,000 for the third quarter of 2002, a 47.5% decrease compared to the third quarter of 2001. For the first nine months of 2002, income before extraordinary items and cumulative preferred dividend was \$1.4 million, a 19.3% decrease compared to the first nine months of 2001.

These comparisons reflect the favorable impact of lower interest rates, offset by the effect of declines in revenues from apartment operations, further impacted by the effect of non-routine and non-recurring revenues totaling approximately \$326,000 in the third quarter of 2001, and \$539,000 in the first nine months of 2001.

### Funds from Operations

Funds from operations is 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."

We calculate funds available for distribution as funds from operations plus non-cash expense for amortization of loan costs, less recurring capital expenditures.

We consider funds from operations and funds available for distribution to be useful in evaluating potential property acquisitions and measuring the operating performance of an equity REIT. We believe that, together with net income and cash flows, funds from operations and funds available for distribution provide investors with additional measures to evaluate the ability of the REIT to incur and service debt and to fund acquisitions and other capital expenditures. 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 \$2.7 million for the third quarter of 2002, a 3.7% decrease compared to the third quarter of 2001. For the first nine months of 2002, funds from operations of the Operating

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

Partnership totaled \$7.9 million, a 2.6% decrease compared to the first nine months of 2001. These comparisons reflect the favorable impact of lower interest rates, offset by declines in revenues from apartment operations and the cumulative preferred dividend, and further impacted by non-routine and non-recurring revenues of \$326,000 in the third quarter of 2001, and \$539,000 in the first nine months of 2001

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

|                                                           | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |
|-----------------------------------------------------------|------------------------------------|---------|-----------------------------------|
|                                                           | 2002                               | 2001    | 2002                              |
|                                                           | (Adjusted)                         |         | (Adjusted)                        |
| Income before minority interest<br>and extraordinary item | \$ 444                             | \$ 875  | \$1,815                           |
| Cumulative preferred dividend                             | (73)                               | -       | (197)                             |
| Depreciation                                              | 2,346                              | 1,946   | 6,313                             |
| Funds from operations -<br>Operating Partnership          | \$2,717                            | \$2,822 | \$7,931                           |

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

|                                                  | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |
|--------------------------------------------------|------------------------------------|---------|-----------------------------------|
|                                                  | 2002                               | 2001    | 2002                              |
| Funds from operations -<br>Operating Partnership | \$2,717                            | \$2,822 | \$7,931                           |
| Amortization of loan costs                       | 82                                 | 46      | 180                               |
| Recurring capital expenditures                   | (542)                              | (416)   | (1,277)                           |
| Funds available for distribution                 | \$2,258                            | \$2,451 | \$6,835                           |

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

|  | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |
|--|------------------------------------|------|-----------------------------------|
|  | 2002                               | 2001 | 2002                              |

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

|                                  |         |         |         |
|----------------------------------|---------|---------|---------|
| Funds from operations -          |         |         |         |
| Operating Partnership            | \$2,717 | \$2,822 | \$7,931 |
| Minority interest in             |         |         |         |
| funds from operations            | (656)   | (648)   | (1,857) |
| -----                            |         |         |         |
| Basic funds from operations      |         |         |         |
| available to common shareholders | \$2,061 | \$2,173 | \$6,074 |
| =====                            |         |         |         |

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

|                                      | Three months ended<br>September 30 |         | Nine months ended<br>September 30 |
|--------------------------------------|------------------------------------|---------|-----------------------------------|
|                                      | 2002                               | 2001    | 2002                              |
| -----                                |                                    |         |                                   |
| Net cash provided by (used in):      |                                    |         |                                   |
| Operating activities                 | \$ 2,722                           | \$2,898 | \$ 7,141                          |
| Investing activities                 | (20,660)                           | (829)   | (31,894)                          |
| Financing activities                 | 18,202                             | 4,221   | 24,003                            |
| Dividends and distributions paid to: |                                    |         |                                   |
| Preferred shareholders               | \$ 63                              | \$ -    | \$ 127                            |
| Common shareholders                  | 1,794                              | 1,769   | 5,363                             |
| Minority unitholders in              |                                    |         |                                   |
| Operating Partnership                | 542                                | 529     | 1,597                             |
| Scheduled debt principal payments    | \$ 117                             | \$ 98   | \$ 237                            |
| Non-recurring capital expenditures   | 340                                | 413     | 849                               |
| Weighted average shares outstanding  |                                    |         |                                   |
| Preferred shares                     | 262                                | -       | 239                               |
| Common shares                        | 5,797                              | 5,717   | 5,776                             |
| Weighted average Operating           |                                    |         |                                   |
| Partnership minority units           |                                    |         |                                   |
| outstanding                          | 1,845                              | 1,706   | 1,766                             |

## Capital Resources and Liquidity

### Capital Resources

Effective September 18, 2002, we acquired Alta Harbour Apartments at a cost of approximately \$19.2 million, paid in cash. We financed this acquisition primarily through issuance of a first deed of trust note in the amount of \$15.9 million. This fixed-rate loan provides for interest at 5.85% and monthly payments including principal and interest of approximately \$94,000, with maturity in September 2012. In conjunction with this financing closing, we funded repair escrows of approximately \$600,000 and paid lender fees and costs totaling approximately \$150,000.

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

million placement of 227,272 shares of our Series B Cumulative Convertible Preferred Stock, and a \$1.5 million draw on our revolving line of credit secured by Latitudes Apartments.

Effective May 31, 2002, we acquired Barrington Place Apartments and Brookford Place Apartments at a cost of approximately \$32.2 million. In addition, we paid deferred loan costs of approximately \$220,000 related to this acquisition. A summary of funding for this acquisition is as follows:

- o We assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million. This fixed-rate loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately \$136,000, with a balloon payment of approximately \$18.0 million due in November 2010.

- o We applied approximately \$4.9 million proceeds from a fixed-rate loan to retire existing obligations of the former owners. A deed of trust and assignment of rents of Brookford Place Apartments secure this loan. The loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$32,000, with a balloon payment of approximately \$4.2 million due in August 2012.

- o We applied \$5.5 million in draws on our revolving line of credit secured by Latitudes Apartments.

- o We issued approximately 147,000 Operating Partnership units with an imputed value of \$12.00 per unit, or approximately \$1.8 million.

In February 2002, we completed refinancing for Oakbrook Apartments, with a \$7.9 million note payable with interest at 7.1% and maturity in February 2012. This deed of trust replaced an existing 7.7% note with a balance of \$6.1 million, with the balance of proceeds applied to reduce our line of credit secured by Latitudes Apartments. Oakbrook was our second apartment community, acquired in June 1994 for an initial acquisition cost of \$9.4 million.

As of September 30, 2002, total long-term debt totaled \$211.1 million, including \$164.8 million of notes payable at fixed interest rates ranging from 5.85% to 8.55%, and \$46.3 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 6.2% at September 30, 2002, and December 31, 2001. 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 \$470,000.

Through the third quarter of 2002, we have issued approximately 55,000 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$630,000. In addition, we issued approximately 8,000 shares of our common stock in non-cash transactions to acquire the same number of Operating Partnership units from former minority unitholders.

### Cash flows and liquidity

Net cash flows from operating activities were \$2.7 million in the third quarter of 2002, compared to \$2.9 million in the third quarter of 2001. Through the first nine months of 2002, net

cash flows from operating activities were \$7.1 million, compared to \$8.2 million in the first nine months of 2001.

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

We have announced that the company will pay a regular quarterly dividend of \$0.31 per share on November 15, 2002, to shareholders of record of our common stock on November 1, 2002. As we have stated in past reports, we are committed to paying the highest dividend that is reasonably prudent. However, any number of unforeseen events or circumstances (for example, a substantial decline in apartment operations, a substantial increase in short-term interest rates, or the sale of the restaurant properties or other assets) could necessitate a reduction in dividend. While we generate a substantial amount of cash flow after expenses, we have chosen to pay out virtually all of it as dividends. Currently available cash flow and the outlook for future cash flow determine the amount of dividend paid. Ultimately, the decision as to the amount of dividend paid is a judgment call in which we attempt to balance our desire to maximize the dividends paid to our shareholders with the cash needed to properly operate the company.

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

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 acquisition of Barrington Place and Brookford Place, we performed a detailed analysis of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: land improvements, 7-20 years; 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 Alta Harbour 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 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. We expense ordinary repairs and maintenance costs at apartment communities.

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

Through September 30, 2002, repairs and maintenance at our apartment communities totaled approximately \$3.3 million, including \$1.2 million in compensation of service staff and \$2.1 million in payments for materials and contracted services.

A summary of capital expenditures at our apartment communities through September 30, 2002, in aggregate and per apartment unit, follows:

|                                     | Total   | Per unit |
|-------------------------------------|---------|----------|
|                                     | -----   | -----    |
|                                     | (000's) |          |
| Recurring capital expenditures:     |         |          |
| Floor coverings                     | \$ 496  | \$128    |
| Appliances/HVAC                     | 162     | 42       |
| Exterior paint                      | 176     | 45       |
| Computer/support equipment          | 140     | 36       |
| Other                               | 303     | 78       |
|                                     | -----   | -----    |
|                                     | \$1,277 | \$329    |
|                                     | =====   | =====    |
| Non-recurring capital expenditures: |         |          |
| Acquisition improvements            | \$545   |          |
| Additions and betterments           | 269     |          |
| Computer/support equipment          | 35      |          |
|                                     | -----   |          |
|                                     | \$849   |          |
|                                     | =====   |          |

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

### Recently Issued Accounting Standards

In April 2002, the Financial Accounting Standards Board issued 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." Statement 145 will generally require 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 plan to adopt Statement 145 effective January 1, 2003. Upon adoption, the extraordinary items for loss on early extinguishment of debt that we have reported in 2002 and earlier will be reclassified to conform to Statement 145. While adoption of Statement 145 will have no impact on net income, it will tend to reduce funds from operations and income before extraordinary items and eliminate extraordinary items as previously reported.

### 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, 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above.

### Item 4. Controls and Procedures

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

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 third quarter of 2002, 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 June 11, 2002, to report the acquisition of Barrington Place and Brookford Place Apartments as of May 31, 2002. We subsequently filed an amendment to this Current Report on Form 8-K/A on July 30, 2002, to provide required audited financial statements and pro forma financial information for this acquisition.

We filed a Current Report on Form 8-K on September 30, 2002, to report the acquisition of Alta Harbour Apartments as of September 18, 2002. We subsequently filed an amendment to this Current Report on Form 8-K/A on November 12, 2002, to provide required audited financial statements and pro forma financial information for this acquisition.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

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

November 12, 2002

/s/ Philip S. Payne

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

November 12, 2002

/s/ Pamela B. Bruno

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

25

### 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;
  - (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

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

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

26

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

November 11, 2002

27

### 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

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

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;

(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

28

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

November 11, 2002

29

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

## INDEX TO EXHIBITS

| Exhibit No. |                                                      | Page |
|-------------|------------------------------------------------------|------|
| 99.1        | Section 906 Certification by Chief Executive Officer | 31   |
| 99.2        | Section 906 Certification by Chief Financial Officer | 32   |