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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
November 07, 2005

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, 2005  
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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 (I.R.S. Employer  
incorporation or organization Identification No.)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes 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 October 31, 2005 (the latest practicable date).

Common Stock, \$.01 par value 9,458,071  
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(Class) (Number of shares)

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Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Balance Sheets  
 (all amounts in thousands except share amounts)

	September 30 2005	Decem 2
	----- (Unaudited)	
<b>Assets</b>		
Real estate investments at cost:		
Apartment properties	\$ 518,170	
Restaurant properties	37,405	
	-----	
	555,575	
Less accumulated depreciation	(83,457)	
	-----	
	472,118	
Real estate assets held for sale, net	14,076	

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	-----	486,194	
Cash and cash equivalents		2,097	
Prepaid expenses and other assets		9,559	
Deferred financing costs, net		2,257	
Intangible assets, net		1,189	
	-----		
Total assets		\$ 501,296	=====
Liabilities and Shareholders' Equity			
Deed of trust and other notes payable		\$ 404,620	
Note payable related to real estate assets held for sale		9,000	
Accounts payable and accrued expenses		4,435	
Accrued interest on notes payable		1,812	
Consideration due for acquisitions		2,700	
Deferred revenue and security deposits		1,997	
	-----		
Total liabilities		424,565	
Minority interest in consolidated limited partnerships		83	
Minority interest in operating partnership		18,928	
Shareholders' equity:			
Preferred stock, \$.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 909,090 at September 30, 2005, and December 31, 2004		10,000	
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 9,458,071 at September 30, 2005, (including 200,000 nonvested shares), and 8,652,740 at December 31, 2004		93	
Additional paid-in capital		112,159	
Dividend distributions in excess of net income		(64,531)	
	-----		
Total shareholders' equity		57,720	
	-----		
Total liabilities and shareholders' equity		\$ 501,296	=====

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Operations - Unaudited  
(all amounts in thousands except per share amounts)

	Three months ended September 30 2005	2004	Nine months e September 2005
	-----		-----
Revenues			
Apartment rental income	\$ 17,701	\$ 11,839	\$ 48,619

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Restaurant rental income	957	957	2,872
Management fee income	6	177	122
Interest and other income	228	295	480
	18,892	13,268	52,093
Expenses			
Apartment operations	7,079	4,872	19,031
Apartment administration	799	564	2,210
Corporate administration	683	497	2,205
Interest	6,034	3,834	16,211
Penalties paid at debt refinance	-	-	519
Depreciation	4,534	3,083	12,079
Amortization of deferred loan costs	112	103	330
Write-off of unamortized loan costs at debt refinance	-	85	223
Deficit distributions to minority partners	150	-	7,771
	19,392	13,039	60,580
	(500)	228	(8,487)
Loss (income) attributed to minority interests			
- Consolidated limited partnerships	191	-	267
- Operating partnership	114	4	1,594
(Loss) income from continuing operations	(195)	232	(6,626)
Discontinued operations:			
Income from discontinued operations	56	82	121
Loss (income) attributed to minority interests	(12)	(15)	(24)
Income from discontinued operations, net	45	67	97
Net (loss) income	(150)	299	(6,529)
Less cumulative preferred dividend	(250)	(250)	(750)
(Loss) income attributed to common shareholders	\$ (400)	\$ 49	\$ (7,279)

(continued)

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Operations - Unaudited - continued  
(all amounts in thousands except per share amounts)

	Three months ended September 30 2005	September 30 2004	Nine months ended September 2005
Weighted average common shares outstanding	9,384	8,289	9,203
Earnings per common share - basic:			

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(Loss) income from					
- Continuing operations	\$	(0.01)	\$	0.02	\$ (0.72)
- Discontinued operations		0.00		0.01	0.01
Net (loss) income		(0.01)		0.03	(0.71)
(Loss) income attributed to common shareholders		(0.04)		0.01	(0.79)
Earnings per common share - diluted:					
(Loss) income from					
- Continuing operations	\$	(0.01)	\$	0.02	\$ (0.72)
- Discontinued operations		0.00		0.01	0.01
Net (loss) income		(0.01)		0.03	(0.71)
(Loss) income attributed to common shareholders		(0.04)		0.01	(0.79)
Dividends declared per common share	\$	0.25	\$	0.25	\$ 0.75

See accompanying notes

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### BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statement of Shareholders' Equity - Unaudited  
 (all amounts in thousands)

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Additional paid-in capital	Divid distribu in exce net in
Balance December 31, 2004	909	\$ 10,000	8,653	\$ 87	\$ 103,221	\$ (50)
Common stock issued	-	-	580	6	8,596	
Dividends paid - preferred	-	-	-	-	-	
Dividends paid - common	-	-	-	-	-	(2)
Net loss, first quarter	-	-	-	-	-	(5)
Balance March 31, 2005	909	10,000	9,233	92	111,817	(58)
Common stock issued	-	-	12	-	194	
Dividends paid - preferred	-	-	-	-	-	
Dividends paid - common	-	-	-	-	-	(2)
Net loss, second quarter	-	-	-	-	-	
Balance June 30, 2005	909	10,000	9,245	92	112,012	(61)
Common stock issued	-	-	213	-	199	
Common stock registration costs	-	-	-	-	(109)	
Compensation expense related to nonvested common stock	-	-	-	-	57	
Dividends paid - preferred	-	-	-	-	-	
Dividends paid - common	-	-	-	-	-	(2)

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Retrospective adjustment for consolidation of Villages - Phase 5 LP	-	-	-	-	-	-
Net loss, third quarter	-	-	-	-	-	-
Balance September 30, 2005	909	\$ 10,000	9,458	\$ 93	\$ 112,159	\$ (64

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows - Unaudited  
(all amounts in thousands)

	Nine months end September 30 2005
Operating activities:	
Apartment rental receipts, net	\$ 49,676
Restaurant rental receipts	2,872
Management fee receipts	122
Interest and other income receipts	329
Operating and administrative expense payments	(24,624)
Interest payments	(17,016)
Net cash provided by operating activities	11,360
Investing activities:	
Acquisitions of apartment properties	(35,576)
Acquisition of Boddie Investment Company, net of cash included in accounts of consolidated limited partnerships	368
Additions to apartment properties, net	(6,086)
Net release (funding) of lender reserves	(89)
Casualty proceeds	533
Net cash used in investing activities	(40,851)
Financing activities:	
Net proceeds from issuance of common stock	1,229
Distributions to minority partners in consolidated limited partnerships	(7,771)
Distributions to operating partnership minority unitholders	(1,518)
Dividends paid to preferred shareholder	(750)
Dividends paid to common shareholders	(6,942)
Proceeds from notes payable	95,938
Principal payments on notes payable	(47,552)
Deposits for pending financing transactions	(600)
Payment of deferred financing costs	(963)
Net cash provided by financing activities	31,071
Net increase in cash and cash equivalents	1,580

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Cash and cash equivalents at beginning of period	517
	-----
Cash and cash equivalents at end of period	\$ 2,097
	=====

(continued)

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BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statements of Cash Flows - Unaudited - continued  
 (all amounts in thousands)

	Nine months end September 30 2005
	-----
Reconciliation of net (loss) income to net cash provided by operating activities:	
Net (loss) income	\$ (6,529)
Amortization of intangible for in-place leases at acquisitions	136
Casualty gains	(168)
Amortization of debt premium	(122)
Depreciation and amortization of deferred loan costs	12,409
Depreciation and amortization from discontinued operations	268
Write off of unamortized loan costs at debt refinancing	223
Deficit distributions to minority partners in consolidated limited partnerships	7,771
Minority interest in consolidated limited partnerships	(267)
Minority interest in operating partnership	(1,570)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(3,633)
Accounts payable and accrued expenses	3,202
Deferred revenue, prepaid rent and security deposits	(361)
	-----
Net cash provided by operating activities	\$ 11,360
	=====

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

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 Notes to Consolidated Financial Statements - September 30, 2005  
 (Unaudited)

Note 1. Interim financial statements

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We prepared the accompanying condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These interim financial statements do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of BNP Residential Properties, Inc. for the year ended December 31, 2004. You should read these financial statements in conjunction with our 2004 Annual Report on Form 10-K. When we use the terms "we," "us," or "our," we mean BNP Residential Properties, Inc. and all entities included in our consolidated financial statements. We believe that we have included all adjustments (including normal recurring accruals) necessary for a fair presentation. Operating results for the three and nine months ending September 30, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

We have reclassified certain amounts in our prior period consolidated financial statements and notes to conform to the current period presentation.

### Note 2. Basis of presentation

These 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.

Effective January 26, 2005, in connection with an acquisition on that date, the consolidated financial statements also include the accounts of three real estate limited partnerships (the "limited partnerships") in which we have general partner interests. The assets of consolidated limited partnerships controlled by the operating partnership generally are not available to pay creditors of the company or the operating partnership.

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

### Accounting for VIEs

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provided a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is an entity or other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without

additional subordinated financial support, (2) has equity owners that, as a group, are unable to make significant decisions about its activities, or (3) has equity owners that, as a group, do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46, as modified, requires that a VIE be consolidated if a party with an



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ownership, contractual or other financial interest in the VIE (a "variable interest holder") is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the "primary beneficiary." Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

**Accounting for general partner interests in limited partnerships**  
As managing general partner in three real estate limited partnerships, we have the ability to exercise significant influence over operating and financial policies. This influence is evident in the terms of the respective partnership agreements. In acting as the general partner in these limited partnerships, we are committed to providing additional levels of funding to meet partnership operating deficits as may be needed.

If we, as general partner, control a partnership that is not a VIE, generally accepted accounting principles require that we consolidate the partnership in our financial statements. Upon consolidation, we record our prorata interest in the partnership's assets and liabilities at the lower of our cost or fair value, and subsequently account for the partnership based on our prorata interest; the non-controlling interests are reflected in our financial statements at their historical costs.

**Accounting for discontinued operations**  
FASB Statement 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that the assets and liabilities and the results of operations of any communities that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in our consolidated financial statements, for both current and prior periods presented. In addition, the net gain or loss on the eventual disposal of communities held for sale will be presented as discontinued operations when recognized. A change in presentation for discontinued operations does not have any impact on our financial condition or results of operations. We measure real estate assets held for sale at the lower of the carrying value or the fair value less cost to sell, and we present those assets separately in our balance sheet. We record no depreciation for the community assets once the community is classified as held for sale.

### Note 3. Accounting for consolidated limited partnerships

Effective January 26, 2005, we acquired Boddie Investment Company ("BIC") in exchange for shares of our common stock. As a result of this acquisition, in addition to other significant assets, we acquired certain economic interests in the following limited partnerships:

- o Marina Shores Associates One, Limited Partnership - 50% interest as general partner
- o The Villages of Chapel Hill Limited Partnership - 1% interest as general partner
- o The Villages of Chapel Hill - Phase 5 Limited Partnership - 1% interest as general partner

Prior to this acquisition, we managed, on a fee basis, the properties owned by these limited partnerships. Following our acquisition of BIC, a wholly owned subsidiary of the operating partnership acts as the managing general partner of these limited partnerships and continues to manage the properties. These limited partnerships are primarily funded with financing from third party lenders, which

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is secured by first deed of trust loans on the rental properties of the partnerships. The creditors of the limited partnerships generally do not have recourse to the operating partnership.

We determined that the Marina Shores Associates One, Limited Partnership ("Marina Shores Partnership") is not a VIE. However, under the terms of the partnership agreement for the Marina Shores Partnership, the general partner controls the activities of the partnership; we have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005. Our initial net investment in this general partnership interest was \$5.9 million. The initial inclusion of the Marina Shores Partnership in our consolidated financial statements resulted in an increase in real estate investments of \$26.3 million, an increase in net operating assets of \$1.0 million and an increase in deed of trust notes payable of approximately \$21.4 million. In our initial consolidation of the Marina Shores Partnership, we reset the noncontrolling limited partner's capital account to \$-0-.

We determined that The Villages of Chapel Hill Limited Partnership ("Villages Partnership") is a VIE because the limited partnership does not have sufficient equity to carry out its principal activities without additional subordinated financial support from the general partner. We also determined that we are the primary beneficiary of the Villages Partnership. We have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005. Our initial net investment in this general partnership interest was \$2,000. The initial inclusion of the Villages Partnership in our consolidated financial statements resulted in an increase in real estate investments of \$14.2 million, an increase in net operating assets of \$0.1 million and an increase in deed of trust notes payable of \$12.1 million. In addition, we hold \$2.0 million in notes and other receivables from The Villages Partnership, which have been eliminated in consolidation. In our initial consolidation of the Villages Partnership, we recorded the noncontrolling limited partners' capital accounts at \$350,000.

We determined that The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages - Phase 5 Partnership") is not a VIE. We initially accounted for our investment in this partnership effective January 26, 2005, by applying the equity method. Our initial investment in the Villages - Phase 5 Partnership was \$7,000, and we initially included this investment in "other assets" on our balance sheet. This treatment followed guidance in the AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," ("SOP 78-9"), which indicated that certain voting rights of the limited partners under the terms of the partnership agreement precluded control by the general partner.

In late June 2005, the FASB ratified its Emerging Issues Task Force consensus in Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." In July 2005, the FASB issued Staff Position (FSP) SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5." This guidance amended SOP 78-9 such that the voting rights of the limited partners under the terms of the Villages - Phase 5 Partnership agreement no longer overcome a presumption of control by the general partner; therefore, we, as general partner, are deemed to control the partnership and should consolidate its accounts and activities in our consolidated financial statements. For existing partnerships, FSP SOP 78-9-1 must be adopted no later than January 1, 2006. We have elected to adopt FSP SOP 78-9-1 effective July 1, 2005,

through retrospective application of this new guidance (as if we had included the accounts of this partnership in our consolidated financial statements

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effective January 26, 2005); we have included supplemental financial statements reflecting this retrospective restatement following these notes to financial statements.

If we had included the accounts of the Villages - Phase 5 Partnership in our consolidated financial statements effective January 26, 2005, such treatment would have resulted in an increase in real estate investments of \$2.6 million, an increase in net operating assets of \$0.2 million and an increase in deed of trust notes payable of \$2.8 million. We would also have reset the noncontrolling limited partners' capital accounts to \$-0-. There has been no subsequent material change in these amounts.

If we had consolidated the activities of the Villages - Phase 5 Partnership in our first and second quarter interim financial statements, such treatment would have resulted in a change in previously reported interim financial results as follows:

	Six months ended June 30, 2005	Three months ended June 30, 2005	March
	----- (000's)	----- (000's)	-----
Loss before minority interests, as previously reported	\$ (7,902)	\$ (591)	
Effect of consolidating Villages - Phase 5	(20)	(4)	
	-----	-----	-----
Loss before minority interests, revised	\$ (7,922)	\$ (595)	
	=====	=====	=====
Net loss, as previously reported	\$ (6,363)	\$ (406)	
Effect of consolidated Villages - Phase 5	(16)	(3)	
	-----	-----	-----
Net loss, revised	\$ (6,379)	\$ (409)	
	=====	=====	=====

These amounts are insignificant to the consolidated statements of operations and would not change reported earnings per share amounts.

We reflect the unaffiliated partners' interests in the Marina Shores Partnership, the Villages Partnership and the Villages - Phase 5 Partnership as minority interest in consolidated limited partnerships. Minority interest in consolidated limited partnerships represents the minority partners' share of the underlying net assets of these consolidated limited partnerships. When these consolidated limited partnerships make cash distributions to partners in excess of the carrying amounts of their minority interests, we record a charge equal to the amount of such excess distributions as deficit distributions to minority partners. While these charges decrease our net income (or increase our net loss), there is no economic effect or cost to the company or the operating partnership for these distributions. The economic cost of these distributions is borne by the limited partnership making the distributions.

During 2005, we recorded charges for deficit distributions to the minority partner in the Marina Shores Partnership as follows (in thousands):

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First quarter	\$ 6,821
Second quarter	800
Third quarter	150
	-----
	\$ 7,771
	=====

We allocate proportional income and losses of the consolidated limited partnerships, measured on a year-to-date basis, to minority partners. However, we may allocate losses to a minority partner only to the extent of the carrying amount of the interest of that minority partner. When losses attributable to the minority limited partners of a consolidated limited partnership exceed the carrying amount of the minority interest, we record a charge, even though there is no economic effect or cost to the operating partnership.

During 2005, we recorded interim charges (reduction) for consolidated limited partnership losses, resulting primarily from depreciation, along with costs related to refinance of the Marina Shores Partnership's first deed of trust loan, as follows:

	Total	Marina Shores Partnership	Villages Partnership	Pa
	(000's)	(000's)	(000's)	
First quarter	\$ 631	\$ 621	\$ -	
Second quarter	(209)	(203)	-	
Third quarter	(131)	(145)	-	
	-----	-----	-----	
	\$ 291	\$ 274	\$ -	
	=====	=====	=====	

\*retrospective for first and second quarters

#### Note 4. Discontinued operations - Real estate assets held for sale

As of September 30, 2005, the company had one apartment community, Savannah Shores Apartments, which qualified as assets held for sale under the provisions of FASB Statement 144. We have presented the operations of this community as discontinued operations in the statements of operations for all periods presented. Operating results of this community were as follows:

	Three months ended September 30		Nine months September
	2005	2004	2005
	(000's)	(000's)	(000's)
Apartment rental income	\$482	\$459	\$1,378
Apartment operations expense	(215)	(218)	(656)
Interest	(123)	(76)	(332)
Depreciation	(84)	(78)	(255)
Amortization of deferred loan costs	(5)	(5)	(14)
	-----	-----	-----
	\$ 56	\$ 82	\$ 121

The consolidated balance sheet as of September 30, 2005, includes other operating assets (excluding net real estate assets) of \$286,000, and other operating liabilities (excluding the note payable related to the real estate assets) of \$207,000 related to this community.

We acquired Savannah Shores Apartments in July 2004 for an initial purchase price of \$12.5 million, paid through issuance of operating partnership units with total imputed value of \$0.1 million, assumption of \$12.2 million in debt obligations, and assumption of \$0.2 million net operating liabilities in excess of operating assets acquired. The acquisition agreement provided for potential earn-out of additional purchase consideration of up to \$1.7 million within a three-year period upon attainment of certain performance standards or upon sale of the property, to be funded through issuance of additional operating partnership units with an imputed value of \$13.00 per unit to the contributors. Accordingly, we have recorded \$1.7 million additional consideration due for this acquisition in our balance sheet as of September 30, 2005.

Note 5. Stock-based compensation

The company has one employee Stock Option and Incentive Plan in place. The plan, as amended May 2005, provides for issuance of up to 1,260,000 shares, with a 630,000-share limit on restricted stock, phantom stock, and other full value stock-based awards combined.

Prior to July 1, 2005, we accounted for this plan using the intrinsic value method under the recognition and measurements principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by FASB Statement 123, "Accounting for Stock-Based Compensation." No stock-based employee compensation cost was reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. All outstanding options were fully vested prior to the end of 2004.

Effective July 1, 2005, we adopted the fair value recognition provisions of FASB Statement 123(R), "Share Based Payment," ("FAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost recognized in the second half of 2005 includes compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R).

If we had applied the fair value recognition provisions of FAS 123 to outstanding options, the effect would have been to reduce net income as reported by less than \$200 for the nine months ended September 30, 2004, with no impact on net income as reported for the nine months ended September 30, 2005, and no impact on basic and diluted earnings per share amounts as reported.

Nonvested common stock

Effective August 1, 2005, the Board of Directors granted and issued 200,000 restricted shares of the company's common stock to four of our executive officers. All of the shares were unvested on the date of grant, and will vest 10% per year beginning on July 1, 2006, and on each July 1 thereafter until fully vested. Once vested, the shares will be fully transferable without restriction. All shares carry dividend and voting rights.

Because grantees fully participate in dividends, the fair value of the nonvested

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shares is equal to the market value at the grant date, \$15.70 per share, or a total of \$3,140,000. Because the grantee group is limited to four key executives, we estimate that 100% of these shares will vest. We will recognize the cost of these awards on a straight-line basis for each annual vesting period ending June 30 through 2015.

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During the quarter ended September 30, 2005, we recorded \$57,000 in compensation cost related to nonvested common stock, included in corporate administration expense in our statement of operations and as an increase to additional paid-in capital. As of September 30, 2005, unrecognized service cost related to nonvested common stock totaled \$3.1 million.

### Stock options

Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. We calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

The following table summarizes information about stock options outstanding at September 30, 2005:

	Weighted Average Remaining Contractual Life (Years)	Number of Options Outstanding	Nu O Exer
	-----	-----	-----
Exercise price \$9.25 per share	4.4	30,000	
Exercise price \$11.25 per share	3.1	60,000	
Exercise price \$13.125 per share	2.8	120,000	
Exercise price \$12.25 per share	1.6	60,000	
		-----	
All options outstanding, fully vested	2.8	270,000	
		=====	

There were no grants of options during the first nine months of 2005 or during 2004. As of December 31, 2004, all outstanding options were fully vested and exercisable. Changes in outstanding stock options during the first nine months of 2005 were as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Beginning balance	327,500	\$ 12.04
Exercised	(57,500)	11.86
	-----	-----
Ending balance	270,000	\$ 12.08
	=====	=====
Exercisable at September 30, 2005	270,000	\$ 12.08
	=====	=====

Note 6. Apartment property acquisitions

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During the first quarter of 2005, we completed the acquisition of a portfolio of four apartment properties from entities associated with Grover F. Shugart, Jr. and/or Brian D. Shugart, whom we call the "Shugart Parties." The four properties contain an aggregate of 1,086 apartment units. The aggregate purchase price for the properties totaled \$52.1 million (including approximately \$0.3 million in net operating assets acquired), paid by the assumption or refinancing of \$42.8 million of debt on the properties and issuance of \$9.3 million in operating partnership units with an imputed value of \$13.50 per unit. Under the terms of the exchange agreements, we issued

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689,000 operating partnership units at closing, and we will issue an additional 74,000 units in March 2006. The preliminary allocation of the purchase price includes the following significant components:

Property	Apt. Units	Contract Price	Debt Assumed	Val Oper Partners
		(000's)	(000's)	(
Canterbury Apartments	630	\$ 25,750	\$ 22,992	\$
Laurel Springs Apartments	240	14,610	11,320	
Laurel Springs II Apartments	96	7,090	5,850	
Salem Ridge Apartments	120	4,360	2,610	

We operate Laurel Springs and Laurel Springs II Apartments as one community.

During the second quarter of 2005, we completed two additional apartment property acquisitions in separate cash transactions. Both properties are located in the Charleston, South Carolina area.

Property	Apt. Units	Contract Price
		(000's)
Waverly Place Apartments	240	\$13,100
Paces Watch Apartments	232	\$20,450

In addition, during the second quarter of 2005, we acquired approximately 40 acres of undeveloped land adjacent to our Canterbury Apartments property for a contract price of \$2.7 million, paid by \$0.6 million in cash and the assumption of \$2.1 million in debt with interest at the lender's prime rate and principal due September 2005. (This note was subsequently modified to extend the maturity to September 2006, with interest at 30-day LIBOR plus 1.98%.)

### Note 7. Financing transactions

Shortly after we acquired BIC (see Note 3 above) in January 2005, we completed the refinancing of debt related to the Marina Shores Partnership. The Marina Shores Partnership issued a \$33.9 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Marina Shores Apartments. This loan provides for interest at 5.075% (5.145% effective rate), payable in monthly installments of principal and interest of \$184,000 through January 2015, with a

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balloon payment of \$28.2 million in February 2015. The Marina Shores Partnership first applied proceeds of this loan to retire the existing \$20.7 million deed of trust loan balance along with \$1.2 million in interest and prepayment penalties, then distributed \$6.8 million to the minority limited partner and \$3.7 million to the operating partnership.

In conjunction with our acquisition of the four apartment properties from the Shugart Parties in March 2005, we assumed the following long-term debt:

- o \$21.5 million balance, fixed-rate note payable, secured by a mortgage and assignment of rents of Canterbury Apartments. This loan provides for interest at 5.4% (5.48% effective

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rate), payable in monthly installments of principal and interest of \$124,000 through July 2013, with a balloon payment of \$18.4 million at maturity in August 2013.

- o \$1.5 million variable rate unsecured note related to Canterbury Apartments, which we immediately retired.
- o \$11.3 million balance, fixed-rate note payable, secured by a deed of trust and assignment of rents of Laurel Springs Apartments. This loan provides for interest at 4.91% (4.98% effective rate), payable in monthly installments of principal and interest of \$62,000 through June 2013, with a balloon payment of \$9.6 million at maturity in July 2013.
- o \$5.9 million variable rate note payable, secured by a deed of trust and assignment of rents of Laurel Springs II Apartments. This loan provides for interest at 30-day LIBOR plus 1.9%, payable monthly. Beginning July 2005, principal payments of \$7,000 are due monthly in addition to interest, with a balloon payment of \$5.8 million at maturity in June 2006. At our option, we may extend the loan maturity to June 2008.
- o \$2.6 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Salem Ridge Apartments. This loan provides for interest at 6.76%, payable in monthly installments of \$15,000 through September 2008, with principal due in full at that date.

In conjunction with our acquisitions during the second quarter of 2005, we issued the following debt:

- o \$10.2 million fixed-rate note payable, secured by a mortgage and assignment of rents of Waverly Place Apartments. This loan provides for interest at 5.31% (5.38% effective rate), with interest only monthly payments of \$46,000 through May 2008. Beginning June 2008, scheduled monthly installments of principal and interest will be \$56,000, with a balloon payment of \$9.1 million at maturity in June 2015.
- o \$14.9 million fixed-rate note payable, secured by a mortgage and assignment of rents of Paces Watch Apartments. This loan provides for interest at 5.31% (5.38% effective rate), with interest only monthly payments of \$67,000 through June 2008. Beginning July 2008, scheduled monthly installments of principal and interest will be \$83,000, with a balloon payment of \$13.3 million at maturity in June 2015.

Also, during the second quarter of 2005, we issued the following debt in refinancing transactions for two of our apartment properties:



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- o \$15.5 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Chason Ridge Apartments. This loan provides for interest at 5.21% (5.28% effective rate), with interest only monthly payments of \$68,000 through June 2008. Beginning July 2008, scheduled monthly installments of principal and interest will be \$85,000, with a balloon payment of \$13.9 million at maturity in June 2015.

We applied proceeds of this loan to retire an \$11.5 million variable-rate note payable. In conjunction with this retirement, we wrote off \$63,000 of unamortized loan costs.

- o \$7.1 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Harris Hill Apartments. This loan provides for interest at 5.21% (5.28% effective rate),

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with interest only monthly payments of \$31,000 through June 2008. Beginning July 2008, scheduled monthly installments of principal and interest will be \$39,000, with a balloon payment of \$6.4 million at maturity in June 2015.

We applied proceeds of this loan to retire an 8.55% fixed-rate note payable with a balance of \$5.5 million.

In conjunction with the various acquisition and financing transactions described above, we made net draws on our lines of credit secured by Latitudes Apartments and our restaurant properties totaling \$6.0 million. In June 2005, we modified our line of credit secured by our 40 restaurant properties to extend the maturity date to January 2008.

### Note 8. Shareholders' equity

In January 2005, we issued 508,578 shares of our common stock, valued at \$8.2 million, in conjunction with the BIC acquisition (see Note 3 above). As part of the acquisition, BIC surrendered, and we cancelled, 72,399 shares of our common stock, valued at \$1.2 million.

In March 2005, we issued 57,500 shares of our common stock upon exercise of options by two employees for proceeds of \$0.7 million.

Also in March 2005, we redeemed operating partnership units from a minority unitholder by issuing 73,333 shares of our common stock on a one-for-one basis.

In August, 2005, we issued 200,000 shares of our common stock for grants of restricted (nonvested) stock to four of our executive officers (see Note 4 above).

Through the first nine months of 2005, we have issued 38,318 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of \$0.6 million.

We calculated basic and diluted earnings per common share using the following amounts (in thousands):

	Three months ended	Nine months	
	September 30	September	
	2005	2004	2005

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	(000's)	(000's)	(000's)
Numerators:			
For basic per common			
share amounts -			
Net (loss) income	\$ (150)	\$ 299	\$ (6,529)
Cumulative preferred dividend	(250)	(250)	(750)
(Loss) income attributed to common			
shareholders - basic	\$ (400)	\$ 49	\$ (7,279)

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	Three months ended September 30		Nine months September
	2005	2004	2005
	(000's)	(000's)	(000's)
For diluted per common			
share amounts -			
Net (loss) income	\$ (150)	\$ 299	\$ (6,529)
Income (loss) attributed to			
minority interest in operating			
partnership (1)	-	11	-
Cumulative preferred dividend	(250)	(250)	(750)
(Loss) income attributed to common			
shareholders - diluted	\$ (400)	\$ 60	\$ (7,279)
Denominators:			
For basic per common			
share amounts -			
Weighted average			
common shares outstanding	9,384	8,289	9,203
Less weighted average nonvested common			
shares outstanding	(133)	-	(45)
Weighted average			
common shares - basic	9,252	8,289	9,159
Effect of dilutive securities:			
Convertible			
operating partnership units (1)	-	1,865	-
Nonvested common shares (2)	-	-	-
Stock options (3)	-	36	-
For diluted earnings per share amounts - adjusted weighted average shares and			
assumed conversions	9,252	10,190	9,159

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- (1) Including operating partnership units would serve to reduce the net loss per share in calculation of 2005 amounts, and they have been excluded from the calculation.
- (2) Including nonvested common shares would serve to reduce the net loss per share in calculation of 2005 amounts, and they have been excluded from the calculation.
- (3) We excluded options to purchase 60,000 shares of common stock at \$12.25, 120,000 shares of common stock at \$13.125, 60,000 shares of common stock at \$11.25, and 30,000 shares of common stock at \$9.25 from the calculation of diluted earnings per share for the three and nine months ended September 30, 2005, because inclusion of these options would serve to reduce the net loss per share.  
We also excluded options to purchase 120,000 shares of common stock at \$13.125 from the calculation of diluted earnings per share for the nine months ended September 30, 2004; the exercise price of these options was greater than the average market price of the common shares for that period, and the effect would have been anti-dilutive.

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### Note 9. Subsequent events

The Board of Directors declared a regular quarterly dividend of \$0.25 per common share on October 20, 2005, payable on November 15, 2005, to shareholders of record as of November 1, 2005. The Board of Directors also authorized the payment of dividends totaling \$250,000 to the Series B Preferred shareholder.

Effective October 21, 2005, we sold Savannah Shores Apartments for a contract price of \$22.75 million to an unaffiliated third party. In conjunction with this disposition, we retired a \$9.0 million variable rate note payable, secured by a mortgage and assignment of rents of the apartment community. We also issued 130,770 operating partnership units with a total imputed value of \$1.7 million for payment of the earn-out of additional purchase price on the property.

Effective October 27, 2005, we acquired the Hamptons at Quail Hollow Apartments, located in Charlotte, North Carolina, for a contract purchase price of \$17.5 million, from an unaffiliated third party. In conjunction with this acquisition, we made an initial draw of \$9.4 million on a newly established \$13.0 million line of credit that carries a variable interest rate of 30-day LIBOR plus 1.65% and matures in November 2008.

Effective October 31, 2005, we acquired the Timbers Apartments, located in Richmond, Virginia, for a contract price of \$22.45 million, from an unaffiliated third party. In conjunction with this acquisition, we issued a \$17.3 million note payable. This note bears interest at a fixed rate of 5.45%, with interest only payable for ten years, and matures in November 2015.

In October 2005, we notified the holder of our Series B Cumulative Convertible Preferred Stock ("preferred stock") that the company is exercising its option to redeem all 909,090 shares of such preferred stock effective December 20, 2005. The holder may elect to convert some or all of the shares of preferred stock to shares of the company's common stock on a one-for-one basis; or we will redeem the preferred stock for cash, priced by reference to the average daily closing price of the company's common stock for the 30 trading days prior to the redemption closing.

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BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statements of Operations - Unaudited  
 Retrospective Restatement for Consolidation of Villages - Phase 5 Partnership  
 (all amounts in thousands except per share amounts)

	Three months ended March 31, 200	
	Restated	Effect of Villages - Phase 5
	-----	-----
Revenues		
Apartment rental income	\$14,175	\$ 84
Restaurant rental income	957	-
Management fee income	111	(4)
Interest and other income	226	1
	-----	-----
	15,470	80
Expenses		
Apartment operations	5,489	46
Apartment administration	673	-
Corporate administration	885	-
Interest and prepayment penalties	5,124	34
Depreciation	3,536	15
Amortization of deferred loan costs	108	1
Write-off of unamortized loan costs at debt refinance	160	-
Deficit distributions to minority partners	6,821	-
	-----	-----
	22,798	96
(Loss) income before minority interests	(7,328)	(16)
Loss (income) attributed to minority interests -		
- Consolidated limited partnerships	62	-
- Operating partnership	1,296	3
	-----	-----
Net (loss) income	(5,970)	(13)
Less cumulative preferred dividend	(250)	-
	-----	-----
(Loss) income attributed to common shareholders	\$(6,220)	\$(13)
	=====	=====
Weighted average common shares outstanding	8,983	-
Earnings per common share, basic and diluted:		
Net (loss) income	\$ (0.66)	-
(Loss) income attributed to common shareholders	(0.69)	-
Dividends declared per common share	0.25	-

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BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statements of Operations - Unaudited  
 Retrospective Restatement for Consolidation of Villages - Phase 5 Partnership  
 (all amounts in thousands except per share amounts)

	Three months ended June 30, 2005			Six months ended June 30, 2005	
	Restated	Effect of Villages - Phase 5	Previously Reported	Restated	Effect of Villages - Phase 5
<b>Revenues</b>					
Apartment rental income	\$17,638	\$130	\$17,508	\$31,813	\$214
Restaurant rental income	957	-	957	1,915	-
Management fee income	5	(6)	11	116	(11)
Interest and other income	26	-	26	252	1
	18,626	124	18,502	34,096	204
<b>Expenses</b>					
Apartment operations	6,904	51	6,853	12,393	97
Apartment administration	738	-	738	1,412	-
Corporate administration	637	-	637	1,522	-
Interest and prepayment penalties	5,781	53	5,728	10,905	86
Depreciation	4,179	22	4,157	7,716	37
Amortization of deferred loan costs	119	2	117	227	3
Write-off of unamortized loan costs at debt refinance	63	-	63	223	-
Deficit distributions to minority partners	800	-	800	7,621	-
	19,221	128	19,093	42,018	224
(Loss) income before minority interests	(595)	(4)	(591)	(7,922)	(20)
Loss (income) attributed to minority interests - - Consolidated limited partnerships	14	-	14	76	-
- Operating partnership	172	1	171	1,467	4
Net (loss) income	(409)	(3)	(406)	(6,379)	(16)
Less cumulative preferred dividend	(250)	-	(250)	(500)	-
(Loss) income attributed to common shareholders	\$ (659)	\$ (3)	\$ (656)	\$ (6,879)	\$ (16)
<b>Weighted average common shares</b>					
outstanding	9,239	-	9,239	9,111	-
Earnings per common share, basic and diluted:					

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Net (loss) income	\$ (0.04)	-	\$ (0.04)	\$ (0.70)	-
(Loss) income attributed to common shareholders					
	(0.06)	-	(0.06)	(0.75)	-
Dividends declared per common share	0.25	-	0.25	0.50	-

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### 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;
- 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 we could incur unexpected costs in performing our third-party apartment property management activities;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates could cause our debt service costs to exceed expectations;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose the services of key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to disclose the results of any revision to these forward-looking statements we may make 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,

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South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of September 30, 2005, we owned and managed 29 apartment communities containing 7,671 units, and served as general partner of limited partnerships that owned three properties with 713 units. In addition to our apartment communities, we own 40 properties that we lease on a triple-net basis to a restaurant operator.

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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 in the operating partnership.

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

### Results of Operations

#### Summary

With good growth in funds from operations, apartment revenue, and apartment level operating income, we were pleased with the results from the third quarter of 2005. Underlying these results was improving performance at our apartment properties. During the quarter, we were able to maintain occupancy at relatively high levels while achieving good increases in revenue per occupied unit. Going forward we believe we are positioned to continue this improvement.

We own and operate a portfolio of extremely well located, well maintained middle-market apartment properties that provide exceptional value at rental rates that a wide range of potential residents can afford. Over the past few years, strong single-family sales, ultra-low home mortgage rates and abundant new apartment construction have hampered our ability to increase rental revenue. Significant increases in the cost of building materials and rising interest rates for both home mortgages and construction loans now appear to be alleviating the situation. As a result, we are becoming increasingly more positive in our outlook for continued improvement in the performance of our apartment properties.

In January 2005, we acquired the general partner interest in three limited partnerships. The activities of these limited partnerships (and the apartment properties owned by those partnerships) are included in our consolidated financial statements. We describe this acquisition in more detail under the heading "Capital Resources" as well as in the notes to our financial statements included in this Current Report on Form 10-Q.

In late March 2005, we acquired a portfolio of four apartment properties that we had previously managed under third-party contracts. (We will operate these as three apartment communities.) We subsequently acquired one apartment property in April 2005 and another property in May 2005. The activities of these owned properties have been included in our consolidated financial statements as of their respective acquisition dates.

Results of operations for the third quarter and first nine months of 2005, compared to the same periods in 2004, reflect significant growth in our company and increased complexity in our financial reporting. We provide the following supplemental consolidating information, in response to requests from members of the investment community, for use in comparing our operating results for 2005 and 2004:

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	2005			
	Consolidated	Elim	Consolidated LPs (1)	Owned Properties
	(000's)	(000's)	(000's)	(000's)
Operating Results - 3 months ended September 30:				
Revenues:				
Apartment rental income	\$ 17,702	\$ -	\$ 1,926	\$ 15,776
Restaurant rental income	957	-	-	957
Management fee income	6	(95)	-	101
Casualty gains	168	-	-	168
Interest and other income	59	(31)	5	85
	18,892	(126)	1,931	17,087
Expenses:				
Apartment operations	7,079	(95)	897	6,277
Administration expenses	1,482	-	-	1,482
Interest	6,034	(31)	677	5,389
Depreciation	4,634	-	412	4,122
Amortization, loan costs	112	-	19	93
Write-off of unamortized loan costs at debt refinance	-	-	-	-
Deficit distributions to minority partners of consolidated limited partnerships(2)	150	-	150	-
	19,392	(126)	2,155	17,363
(Loss) income from continuing operations	(500)	-	(224)	(275)
Income from discontinued operations	56	-	0	56
(Loss) income before minority interests	(443)	\$ -	\$ (224)	\$ (219)
Minority interests -				
- Consolidated limited partnerships	191			
- Operating partnership	103			
Net (loss) income	\$ (150)			
(Loss) income before minority interest	\$ (443)	\$ -	\$ (224)	\$ (219)
Casualty gains	(168)	-	-	(168)
Cumulative preferred dividend	(250)	-	-	(250)
Amortization, lease intangible	62	-	-	62
Depreciation	4,534	-	412	4,122
Depreciation related to				



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discontinued operations	84	-	-	84
Deficit distributions to minority partners of consolidated limited partnerships(2)	150	-	150	-
	3,968	-	338	3,631
Minority interest in FFO of consolidated limited partnerships	(94)	-	(94)	-
Funds from operations(3)	\$ 3,875	\$ -	\$ 244	\$ 3,631

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	2005			
	Consolidated	Elim	Consolidated LPs (1)	Owned Properties
	(000's)	(000's)	(000's)	(000's)
Operating Results - 9 months ended September 30:				
Revenues:				
Apartment rental income	\$ 48,619	\$ -	\$ 5,152	\$ 43,467
Restaurant rental income	2,872	-	-	2,872
Management fee income	122	(256)	-	378
Casualty gains	168	-	-	168
Interest and other income	311	(87)	11	387
	52,093	(343)	5,163	47,273
Expenses:				
Apartment operations	19,031	(256)	2,222	17,065
Administration expenses	4,415	-	-	4,415
Interest	16,211	(87)	1,793	14,505
Prepayment penalties	519	-	519	-
Depreciation	12,079	-	993	11,086
Amortization, loan costs	330	-	51	279
Write-off of unamortized loan costs at debt refinancing	223	-	160	63
Deficit distributions to minority partners of consolidated limited partnerships(2)	7,771	-	7,771	-
	60,580	(343)	13,508	47,414
(Loss) income from continuing operations	(8,487)	-	(8,345)	(141)
Income from discontinued operations	121	-	-	121
(Loss) income before minority interests	(8,366)	\$ -	\$ (8,345)	\$ (20)
Minority interests - Consolidated limited partnerships	267			

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- Operating partnership	1,570			
	-----			
Net (loss) income	\$ (6,529)			
	=====			
(Loss) income before				
minority interest	\$ (8,366)	\$ -	\$ (8,345)	\$ (20)
Casualty gains	(168)	-	-	(168)
Cumulative preferred dividend	(750)	-	-	(750)
Amortization, lease intangible	136	-	-	136
Depreciation	12,079	-	993	11,086
Depreciation related to				
discontinued operations	255	-	-	255
Deficit distributions to minority				
partners of consolidated limited				
partnerships(2)	7,771	-	7,771	-
	-----	-----	-----	-----
	10,957	-	419	10,538
Minority interest in FFO of				
consolidated limited partnerships	228	-	228	-
	-----	-----	-----	-----
Funds from operations(3)	\$ 11,185	\$ -	\$ 647	\$ 10,538
	=====	=====	=====	=====

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	2005			
	Consolidated	Elim	Consolidated	Owned
	(000's)	(000's)	LPs (1)	Properties
	(000's)	(000's)	(000's)	(000's)
Balance Sheet at September 30, 2005, compared to December 31, 2004:				
Real estate investments				
Continuing operations	\$472,118	\$ -	\$42,297	\$429,822
Assets held for sale	14,076	-	-	14,076
Cash and cash equivalents	2,097	-	626	1,471
Prepaid expenses and				
other assets	9,559	(3,588)	1,128	12,019
Deferred financing costs, net	2,257	-	623	1,634
Intangible assets, net	1,189	-	-	1,189
	-----	-----	-----	-----
	\$501,296	\$ (3,588)	\$44,674	\$460,210
	=====	=====	=====	=====
Notes payable				
Continuing operations	\$404,620	\$ (2,090)	\$50,427	\$356,284
Assets held for sale	9,000	-	-	9,000
Accounts payable and				
accrued expenses	4,435	(200)	615	4,020

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Accrued interest	1,812	-	202	1,611
Consideration due for acquisitions				
	2,700	-	-	2,700
Deferred revenue and security deposits	1,997	-	128	1,869
	-----	-----	-----	-----
	424,565	(2,290)	51,371	375,484
Minority interests -				
- Consolidated limited partnerships	83	-	83	-
- Operating partnership	18,928	-	-	18,928
Shareholders' equity	57,720	(1,298)	(6,781)	65,799
	-----	-----	-----	-----
	\$501,296	\$(3,588)	\$44,674	\$460,210
	=====	=====	=====	=====

- (1) Effective January 26, 2005, we include the accounts of three real estate limited partnerships in our consolidated financial statements.
- (2) In accordance with generally accepted accounting principles ("GAAP"), deficit distributions to minority partners are charges recognized in our statement of operations when cash is distributed to a non-controlling partner in a consolidated limited partnership in excess of the positive balance in such partner's capital account (which is classified as minority interest in our consolidated balance sheet). We are required to record these charges for GAAP purposes even though there is no economic effect or cost to the company or the operating partnership.
- (3) See discussion of funds from operations under the caption "Funds from Operations" below in this Item 2.

### Discontinued operations

In accordance with GAAP, we present the assets and liabilities and the results of operations of any communities that qualify as held for sale, or that have been sold, as discontinued operations in our statements of operations, for both the current and prior periods shown. In addition, the net gain or loss on the eventual disposal of communities held for sale will be presented as discontinued operations when recognized. A change in presentation for discontinued operations does not have any impact on our financial condition or overall results of operations.

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As of September 30, 2005, we had one apartment community, Savannah Shores Apartments, which qualified under GAAP as assets held for sale. We have presented the operations of this community as discontinued operations in the financial statements. We subsequently completed the sale of this community in October 2005.

We typically purchase apartment communities with the expectation of holding and operating them for the long term. In this case, we received an unsolicited offer for Savannah Shores (which we had acquired in July 2004), and we believe that accepting that offer was in the best interest of our shareholders. (See further discussion under the caption "Capital Resources and Liquidity - Impending sale of apartment community" below.)

Unless noted otherwise, the following discussion of operating results relates to our continuing operations.

### Revenues

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Total revenues in the third quarter of 2005 were \$18.9 million, compared to \$13.3 million in the third quarter of 2004. Total revenues in the first nine months of 2005 were \$52.1 million, compared to \$36.4 million in the first nine months of 2004. These increases are primarily attributable to increases in apartment rental income.

Apartment rental income totaled \$17.7 million in the third quarter of 2005, an increase of \$5.9 million, or 49.5%, compared to the third quarter of 2004. Apartment rental income in the first nine months of 2005 totaled \$48.6 million, an increase of \$16.1 million, or 49.7%, compared to the first nine months of 2004. These increases are attributable to:

- o Apartment acquisitions in 2004 and 2005 - these nine communities contributed \$5.3 million in third quarter 2005 and \$12.4 million in the first nine months of 2005, compared to \$1.6 million in the third quarter and \$2.0 million in the first nine months of 2004. The first of these communities was acquired in May 2004.
- o Apartment communities that we consolidate effective January 2005 - these three communities contributed \$1.9 million in third quarter 2005 and \$5.2 million in the first nine months of 2005.

On a "same-units" basis (the 19 apartment communities that we owned as of January 1, 2004), apartment rental income increased by 2.2% in the third quarter and by 2.2% in the first nine months of 2005 compared to 2004. These increases are consistent with increases in average revenue per occupied unit, while average economic occupancy for these units declined slightly from comparable periods in 2004.

On a same-units basis, apartment NOI (apartment rental income less apartment operating expenses) for the third quarter of 2005 increased by 4.9% compared to the third quarter of 2004. For the first nine months of 2005, same-units NOI increased by 4.8% compared to the first nine months of 2004.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the third quarter and first nine months of 2005 follow:

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		Three months ended September 30, 2005		Nine mont September
	Number of apartment units	Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Owned apartment communities:				
Same-units communities:				
Abbington Place	360	92.5%	\$ 779	93.8%
Allerton Place	228	96.6%	823	95.3%
Barrington Place	348	97.5%	770	94.7%
Brookford Place	108	93.7%	682	95.6%
Chason Ridge	252	89.4%	767	91.2%
The Harrington (1)	288	93.0%	789	92.7%

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Harris Hill (1)	184	94.4%	650	95.3%
Latitudes	448	97.5%	989	96.8%
Madison Hall	128	95.4%	597	95.7%
Marina Shores Waterfront	290	96.2%	876	94.9%
Oakbrook	162	94.1%	729	94.9%
Oak Hollow	461	92.8%	618	95.2%
Paces Commons	336	92.9%	673	94.6%
Paces Village	198	96.5%	681	96.7%
Pepperstone	108	94.5%	708	96.8%
Savannah Place	172	92.8%	734	94.2%
Summerlyn Place	140	96.2%	830	95.1%
The Place (2)	144	94.8%	562	94.6%
Waterford Place	240	96.2%	907	94.4%
Woods Edge	264	91.6%	708	93.9%
Acquired in 2004:				
Carriage Club	268	96.3%	758	95.5%
Fairington	250	94.8%	734	95.6%
Savannah Shores (3)	198	96.7%	840	95.1%
Bridges at Southpoint	192	96.1%	703	95.9%
Bridges at Wind River	346	96.9%	798	94.4%
Acquired in 2005:				
Canterbury (3/31/05)	630	97.1%	631	97.4%
Laurel Springs (3/31/05)	336	93.7%	696	94.5%
Paces Watch (5/12/05)	232	96.4%	848	96.6%
Salem Ridge (3/31/05)	120	97.2%	543	97.5%
Waverly Place (4/21/05)	240	94.5%	642	94.1%
All apartments				
- 2005	7,671	95.0%	744	95.0%
- 2004	5,921	94.5%	745	94.8%
Same units				
- 2005	4,859	94.5%	761	94.8%
- 2004		95.2%	737	95.1%

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		Three months ended September 30, 2005		Nine mont September
	Number of apartment units	Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Consolidated limited partnerships:				
Marina Shores	392	98.1%	1,194	96.4%
Villages of Chapel Hill	264	78.5%	642	89.1%
Villages - Phase 5	57	89.7%	743	94.6%

(1) In October 2005, we combined these adjacent communities under the name

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Bridges at Mallard Creek.

(2) In October 2005, we renamed this community Bridges at Pelham.

(3) Savannah Shores was held for sale at September 30, 2005, and subsequently sold in October 2005.

Restaurant rental income was \$957,000 in third quarter, and \$2.9 million through the first nine months of both 2005 and 2004. We received the minimum rent specified in the lease agreement in the first three quarters of both 2005 and 2004. We currently hold 40 restaurant properties under this lease, and minimum rent is currently set at \$319,000 per month, or \$3.8 million per year.

Management fee income totaled \$6,000 in the third quarter of 2005, compared to \$177,000 in the third quarter of 2004. Management fee income totaled \$122,000 in the first nine months of 2005, compared to \$582,000 in the first nine months of 2004. These decreases are consistent with expectations, and are attributable to the elimination of management fees for consolidated limited partnerships and our acquisition of four managed properties in the first quarter of 2005. Going forward, we expect that management fees will be insignificant.

Interest and other income totaled \$228,000 in the third quarter of 2005, compared to \$295,000 in the third quarter of 2004. Interest and other income totaled \$480,000 in the first nine months of 2005, compared to \$431,000 in the first nine months of 2004. These amounts include casualty gains of \$168,000 recorded in the third quarter of 2005 and \$269,000 recorded in the third quarter of 2004. In both cases, the recorded casualty gains relate to insurance settlements for fires that occurred at apartment communities. Generally accepted accounting principles require us to recognize these gains on the insurance proceeds for assets destroyed. However, the economic reality is that we have or will invest all of the insurance proceeds to replace the assets that were destroyed.

### Expenses

Total expenses were \$19.4 million in the third quarter of 2005, compared to \$13.0 million in the third quarter of 2004. Total expenses were \$60.6 million in the first nine months of 2005, compared to \$35.5 million in the first nine months of 2004. These increases are primarily attributable to growth in the size of our apartment operations, along with charges for deficit distributions to a minority partner.

We reflect the unaffiliated partners' interests in Marina Shores Associates One Limited Partnership ("Marina Shores Partnership"), The Villages of Chapel Hill Limited Partnership

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("Villages Partnership"), and The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages - Phase 5 Partnership") as minority interest in consolidated limited partnerships. Minority interest in consolidated limited partnerships represents the minority partners' share of the underlying net assets of these consolidated limited partnerships. When these consolidated limited partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we record a charge equal to the amount of such excess distributions, even though there is no economic effect or cost to the operating partnership. We report this charge in our consolidated statements of operations as deficit distributions to minority partners. We recorded charges for deficit distributions to the minority partner in the Marina Shores Partnership totaling \$0.2 million in the third quarter and \$7.8 million through the first nine months of 2005.

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Apartment operations expense (the direct costs of on-site operations at our apartment communities) totaled \$7.1 million in the third quarter of 2005, an increase of \$2.2 million, or 45.3%, compared to the third quarter of 2004. Apartment operations expense in the first nine months of 2005 totaled \$19.0 million, an increase of \$5.9 million, or 45.0%, compared to the first nine months of 2004. These increases are primarily attributable to:

- o Apartment acquisitions in 2004 and 2005 - apartment operations expense for these nine communities was \$2.1 million in third quarter 2005 and \$4.9 million in the first nine months of 2005, compared to \$0.7 million in the third quarter and \$0.8 million in the first nine months of 2004.
- o Apartment communities that we consolidate effective January 2005 - apartment operations expense for these three communities was \$0.8 million in third quarter 2005 and \$2.0 million in the first nine months of 2005.

On a same-units basis, apartment operations expense declined by 1.5% in the third quarter and 1.7% in the first nine months of 2005 compared to 2004, due primarily to reductions in compensation and property insurance costs.

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 costs (the costs associated with oversight, accounting and support of our apartment management activities) totaled \$0.8 million in the third quarter of 2005, a 41.7 % increase compared to the third quarter of 2004. Apartment administration costs totaled \$2.2 million in the first nine months of 2005, a 37.8% increase compared to the first nine months of 2004. These increases are primarily attributable to additional corporate support staff.

Corporate administration expense totaled \$0.7 million in the third quarter of 2005, an increase of 37.4% compared to the third quarter of 2004. Corporate administration costs totaled \$2.2 million in the first nine months of 2005, an increase of 27.9% compared to the first nine months of 2004. These increases are primarily attributable to a \$0.2 million increase in professional fees associated with requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and late audit fee billings, along with increases in executive compensation.

Effective August 1, 2005, the Board of Directors granted and issued 200,000 restricted shares of the company's common stock to four of our executive officers. We refer to these shares as "nonvested shares" in our consolidated financial statements. All of the shares were unvested on the date of grant, and will vest 10% per year beginning July 1, 2006, and on each July 1 thereafter until fully vested. Because grantees fully participate in dividends, the fair value of the

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nonvested shares is equal to the market value at the grant date, \$15.70 per share, or a total of \$3.1 million. During the quarter ended September 30, 2005, we recorded \$57,000 in compensation expense related to the nonvested common stock. We will continue to recognize the cost of these awards on a straight-line basis for each annual vesting period ending June 30 through 2015.

Depreciation expense totaled \$4.5 million in the third quarter of 2005, an increase of \$1.5 million, or 47.1%, compared to the third quarter of 2004. Depreciation expense totaled \$12.1 million in the first nine months of 2005, an

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increase of \$3.8 million, or 45.3%, compared to the first nine months of 2005. These increases are primarily attributable to acquisitions of apartment communities (\$3.3 million in the first nine months of 2005, compared to \$0.5 million in the first nine months of 2004), along with depreciation expense for the apartment communities we consolidate effective January 2005 (\$1.0 million in the first nine months of 2005).

Interest expense totaled \$6.0 million in the third quarter of 2005, an increase of \$2.2 million, or 57.4%, compared to the third quarter of 2004. Interest expense (excluding \$0.5 million in prepayment penalties paid by Marina Shores in first quarter of 2005) totaled \$16.2 million in the first nine months of 2005, an increase of \$5.8 million, or 55.8%, compared to the first nine months of 2004. This increase is primarily attributable to new debt issued in conjunction with acquisitions of apartment properties during 2004 and 2005, along with the impact of consolidating three limited partnerships in 2005. Overall, weighted average interest rates were 6.0% for the third quarter and 5.9% for the first nine months of 2005, compared to 5.7% for the third quarter and first nine months of 2004, reflecting the impact of steady increases in variable interest rates over the last twelve months.

### Net Income

Consolidated earnings from continuing operations before non-cash charges (for depreciation, amortization and write-off of unamortized loan costs at refinancing) and before the \$0.2 million charge for deficit distributions to a minority partner (which has no economic effect or cost to the operating partnership) totaled \$4.3 million, an increase of \$0.8 million, or 22.8 %, compared to the third quarter of 2004. Consolidated earnings from continuing operations before non-cash charges and before the \$7.8 million charge for deficit distributions to a minority partner in the first nine months of 2005 totaled \$11.9 million, a \$2.4 million, or 25.4%, increase compared to the first nine months of 2004. These increases reflect the positive impact of new apartment communities and improvements in apartment revenues, offset by a \$0.5 million charge for prepayment penalties paid at loan refinancing by a consolidated limited partnership during the first quarter of 2005.

On a consolidated basis, before minority interests in the consolidated limited partnerships and the minority interest in the operating partnership, the net loss from continuing operations for the third quarter of 2005 totaled \$0.5 million, compared to \$0.2 million in income before minority interests in the third quarter of 2004. The net loss from continuing operations, before minority interests, in the first nine months of 2005 totaled \$8.5 million, compared to \$0.8 million in income before minority interest in the first nine months of 2004. The 2005 losses again reflect the impact of charges for deficit distributions to a minority partner (\$0.2 million in the third quarter and \$7.8 million in the first nine months), a first quarter 2005 charge of \$0.5 million for penalties paid at loan refinancing by a consolidated limited partnership, along with additional \$0.2 million charges to write off unamortized loan costs at refinancing.

Amounts for discontinued operations reflect the operating results of Savannah Shores Apartments through the first nine months of 2005 and from July through September of 2004.

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Savannah Shores generated \$56,000 of income in the third quarter of 2005 and \$121,000 through the first nine months of 2005, compared to \$82,000 in 2004.

We allocate proportional income and losses of the consolidated limited partnerships, measured on a year-to-date basis, to minority partners. However,



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we may allocate losses to a minority partner only to the extent of the carrying amount of the interest of that minority partner. When losses attributable to the minority limited partners of a consolidated limited partnership exceed the carrying amount of the minority interest, we record a charge, even though there is no economic effect or cost to the operating partnership. After recovering \$0.1 million of previous such charges during the third quarter of 2005, we have recorded year-to-date charges of \$0.3 million for losses that could not be allocated to minority partners' accounts.

Minority interests in the consolidated limited partnerships and the operating partnership absorbed \$0.3 million in the third quarter and \$1.8 million in the first nine months of 2005, of the consolidated losses. After allocating those losses to minority interests, the net loss was \$0.1 million in the third quarter of 2005 and \$6.5 million in the first nine months of 2005.

Because the preferred shareholder has priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to the preferred shareholder in calculating net income available to common shareholders. After deducting \$250,000 for the cumulative preferred dividend in each of the first three quarters of both 2005 and 2004, the net loss attributed to common shareholders was \$0.4 million for the third quarter and \$7.3 million for the first nine months of 2005, compared to essentially break-even amounts for the third quarter and first nine months of 2004.

### Funds from Operations

Funds from operations is frequently referred to as "FFO." FFO 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." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the operating partnership, we measure FFO at the operating partnership level (i.e., after deducting the minority interests in FFO of the consolidated limited partnerships, but before deducting the minority interest in the operating partnership).

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring operating performance.

Funds available for distribution is frequently referred to as "FAD." We define FAD as FFO plus non-cash expense for amortization and write-off of unamortized loan costs, plus (less) gains (losses) from sales of property, less recurring capital expenditures. We believe that, together with net income and cash flows from operating activities, FAD provides investors with an additional measure to evaluate the ability of the operating partnership to incur and service debt, to fund acquisitions and other capital expenditures, and to fund distributions to shareholders and minority unitholders.

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. Nor do FFO or FAD measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization,

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capital improvements and distributions to shareholders and unitholders. You should not consider FFO or FAD to be alternatives to net income as reliable measures of the company's operating performance; nor should you consider FFO or FAD to be alternatives to cash flows from operating, investing or financing activities (as defined by generally accepted accounting principles) as measures of liquidity. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

Funds from operations totaled \$3.9 million in the third quarter of 2005, an increase of 31.2% compared to the third quarter of 2004. Funds from operations in the first nine months of 2005 totaled \$11.2 million, an increase of 34.8% compared to the first nine months of 2004. These comparisons reflect the positive impact of apartment additions and the improvement in apartment operating results.

Funds available for distribution totaled \$3.2 million in the third quarter of 2005, an increase of 17.0% compared to the third quarter of 2004. Funds available for distribution in the first nine months of 2005 totaled \$9.5 million, an increase of 30.1% compared to the first nine months of 2004. The disparity between comparisons of FFO and FAD against prior year periods arises from the impact of timing of recurring capital expenditures, which we deduct in our measurement of FAD. Recurring capital expenditures include operating replacements such as floor coverings, appliances and HVAC, as well as expenditures for capital replacements such as roofs and exterior paint.

We calculated FFO of the operating partnership as follows:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	
	(000's)	(000's)	(000's)	(000's)
Net (loss) income	\$ (150)	\$ 299	\$ (6,529)	\$
Income (loss) attributed to minority interests	(293)	11	(1,837)	
Less cumulative preferred dividend	(250)	(250)	(750)	
Less casualty gains	(168)	(269)	(168)	
Add amortization of in-place lease intangibles	62	-	136	
Add depreciation	4,534	3,083	12,079	
Add depreciation related to discontinued operations	84	78	255	
Add deficit distributions to minority partners of consolidated limited partnerships(1)	150	-	7,771	
Add (less) minority interest in FFO of consolidated limited partnerships	(94)	-	228	
Funds from operations	\$ 3,875	\$ 2,952	\$ 11,185	\$
	=====	=====	=====	=====

(1) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our statement of operations when cash is distributed to a non-controlling partner in a consolidated limited partnership in

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excess of the positive balance in such partner's capital account (which is classified as minority interest in our consolidated balance sheet). We are required to record these charges for GAAP purposes even though there is no economic effect or cost to the operating partnership. The economic cost of these distributions is borne by the limited partnership making the distributions.

Deficit distributions to minority partners may occur when the fair value of the underlying real estate exceeds its depreciated net book value because the underlying real estate has appreciated or maintained its value. As a result, deficit distributions to minority partners represent, in substance, either our recognition of depreciation previously allocated to the non-controlling partner or a cost related to the non-controlling partner's share of real estate appreciation. Based on NAREIT guidance that requires that real estate depreciation and gains be excluded from FFO, we add back deficit distributions and subtract related recoveries in our reconciliation of net income to FFO.

A reconciliation of net cash provided by operating activities (as defined by generally accepted accounting principles and reflected in our consolidated statements of cash flows) to FAD follows:

	Three months ended September 30		Nine months en September 3
	2005	2004	2005
	(000's)	(000's)	(000's)
Net cash provided by operating activities	\$ 4,311	\$ 3,637	\$11,360
Less recurring capital expenditures	(902)	(438)	(2,204)
Less cumulative preferred dividend	(250)	(250)	(750)
Add (less) change in net operating assets and liabilities	(2)	(241)	792
Add amortization of deferred interest defeasance	46	-	122
Add (less) minority interest in consolidated limited partnerships' share of reconciling items	(35)	-	187
Funds available for distribution	\$ 3,169	\$ 2,708	\$ 9,507

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

	Three months ended September 30		Nine months en September 3
	2005	2004	2005
	(000's)	(000's)	(000's)
Net cash provided by (used in):			
Operating activities	\$ 4,311	\$ 3,637	\$ 11,360

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Investing activities	(1,287)	(29,833)	(40,851)	
Financing activities	(3,461)	22,793	31,071	
Dividends and distributions paid to:				
Preferred shareholders	\$ 250	\$ 250	\$ 750	\$
Common shareholders	2,361	2,140	6,942	
Minority partners in consolidated limited partnerships	150	-	7,771	
Minority unitholders in operating partnership	602	460	1,518	
Scheduled debt principal payments	643	386	1,663	
Non-recurring capital expenditures	1,087	1,046	3,882	
Weighted average shares outstanding				
Preferred shares	909	909	909	
Common shares	9,384	8,289	9,203	
Weighted average operating partnership minority units outstanding				
	2,408	1,865	2,231	

### Capital Resources and Liquidity

#### Capital Resources

We completed a number of significant investing and financing transactions during the first nine months of 2005. (Most of the transactions in the following discussion took place during the first and second quarters.) In addition, during the third quarter and for the first time in our history, we entered into a contract for sale of an apartment community.

#### Acquisition of Boddie Investment Company

In January 2005, we acquired Boddie Investment Company ("BIC") through a merger. We issued 508,578 shares of our common stock, and cancelled 72,399 shares of common stock that BIC held immediately before the merger. The value of this transaction was \$8.2 million. Direct costs (out-of-pocket cash costs) related to this acquisition were approximately \$150,000. As a result of this acquisition, we assumed the role of general partner and acquired economic interests in three limited partnerships. Prior to this acquisition, we managed the apartment communities owned by these partnerships on a contract basis; we will continue to manage these partnerships.

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A summary of assets acquired in the BIC acquisition, along with our preliminary allocation of costs assigned to those assets, follows (amounts in thousands):

Investments in limited partnerships:	
Marina Shores Associates One, Limited Partnership	\$5,940
The Villages of Chapel Hill Limited Partnership	2
The Villages of Chapel Hill - Phase 5 Limited Partnership	7
BNP common stock held by BIC (which we immediately retired)	1,166
Receivables from the Villages Partnership for general partners' advances and accrued interest thereon	1,220
	-----
	\$8,335
	=====

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Although the amounts related to this acquisition seem relatively insignificant at first glance, the accounting for the investments in limited partnerships is complex, and the impact on presentation of our consolidated financial statements is rather significant. We have included a detailed discussion of our accounting treatment for each of the investments in limited partnerships in Note 2 of our financial statements included in this Current Report on Form 10-Q. A summary of that discussion for each limited partnership follows:

### BIC Acquisition - Marina Shores Partnership

We acquired a 50% general partner interest in the Marina Shores Partnership. Under the terms of the partnership agreement for the Marina Shores Partnership, the general partner controls the activities of the partnership. We have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005. The initial inclusion of the Marina Shores Partnership in our consolidated financial statements resulted in (amounts in thousands):

Increase in real estate investments - 392 apartment units	\$26,254
Increase in cash and cash equivalents	252
Increase in other assets	1,251
	-----
	27,757
Increase in long-term debt	20,745
Increase in other liabilities	1,072
	-----
	21,817
Increase in net assets	\$ 5,940
	=====

Very shortly after our acquisition of BIC, the Marina Shores Partnership completed a refinancing of its long-term debt. The Marina Shores Partnership issued a \$33.9 million fixed-rate note payable. This 10-year loan provides for interest at an effective rate of 5.1%. The Marina Shores Partnership first applied proceeds of this loan to retire the existing \$20.7 million deed of trust loan balance along with \$1.2 million interest and prepayment penalties, then distributed \$6.8 million to its limited partner and \$3.7 million to the operating partnership. Through September 30, 2005, the Marina Shores Partnership has made distributions totaling \$7.7 million to its limited partner and \$4.6 million to the operating partnership.

Prior to consolidation in our financial statements, the fair value of the real estate held by the Marina Shores Partnership significantly exceeded its depreciated net book value because the underlying real estate had appreciated significantly since the Marina Shores Partnership's original

formation in the late 1980s. In our initial consolidation of this partnership, we reset the noncontrolling limited partner's capital account to \$-0-. Distributions to the limited partner subsequent to inclusion of the Marina Shores Partnership in our consolidated financial statements are, and will generally be, reflected as charges against income in our consolidated financial statements as "deficit distributions to minority partners."

In accordance with GAAP, deficit distributions to minority partners are charges recognized in our income statement when cash is distributed to a non-controlling partner in a consolidated limited partnership in excess of the

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positive balance in such partner's capital account (which is classified as minority interest in our consolidated balance sheet). Deficit distributions to minority partners represent, in substance, either (a) our recognition of depreciation previously allocated to the non-controlling partner or (b) a cost related to the non-controlling partner's share of real estate appreciation. We record these charges for GAAP purposes even though there is no economic effect or cost to the company or the operating partnership.

### BIC Acquisition - The Villages Partnership

We acquired a 1% general partner interest in the Villages Partnership. We determined that, in accordance with GAAP, the Villages Partnership is a "variable interest entity" ("VIE") because it does not have sufficient equity to carry out its principal activities without additional subordinated financial support, and that we are the "primary beneficiary" of the Partnership. We have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005. The initial inclusion of the Villages Partnership in our consolidated financial statements resulted in (amounts in thousands):

Increase in real estate investments - 264 apartment units	\$14,188
Increase in cash and cash equivalents	87
Increase in other assets	318
	14,594
Increase in long-term debt - first deed of trust	12,094
Increase in subordinated long-term debt to BNP*	1,888
Increase in other liabilities	260
Minority interest in consolidated limited partnerships	350
	14,592
	\$ 2

\*The subordinated long-term debt to BNP is eliminated in consolidation against related receivable balances.

### BIC Acquisition - The Villages of Chapel Hill - Phase 5 Limited Partnership

We acquired a 1% general partner interest in The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages - Phase 5 Partnership"). Under the terms of the partnership agreement for the Villages - Phase 5 Partnership, and consistent with new accounting guidance issued in July 2005, the general partner controls the activities of the partnership. Therefore, commencing in the third quarter of 2005, we have included the accounts of this partnership in our consolidated financial statements retroactively to January 26, 2005.

Based on accounting guidance in place in January 2005, we initially accounted for our investment in this partnership by applying the equity method. Our initial investment in the Villages - Phase 5 Partnership was \$7,000, and we initially included this amount in "other assets" on our consolidated balance sheet. During the third quarter of 2005, we applied the guidance of FASB Staff Position SOP 78-9-1 ("FSP SOP 78-9-1"), "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5," on a "retrospective" basis to amounts reflected in our Current Reports on Form 10-Q for the periods ended March 31 and June 30, 2005 - in other words, we have reflected the accounts and activities of the Villages - Phase 5 Partnership in this Current Report on Form 10-Q as if we

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had initially consolidated the Villages - Phase 5 Partnership in January 2005. We have discussed this retrospective treatment in more detail in the notes to the financial statements included in this Current Report on Form 10-Q and have included supplemental financial statements, reflecting the retrospective changes to our statements of operations previously provided, following the notes to the financial statements.

The retrospective inclusion of the Villages - Phase 5 Partnership in our consolidated financial statements resulted in (amounts in thousands):

Increase in real estate investments - 57 apartment units	\$2,596
Increase in cash and cash equivalents	173
Increase in other assets	105
	2,874
Increase in long-term debt	2,840
Increase in other liabilities	27
	2,867
Increase in net assets	\$ 7

### Acquisition of Shugart Properties

On March 31, 2005, we completed the acquisition of a portfolio of four apartment properties from entities that we call the "Shugart Parties." The aggregate purchase price for the properties totaled \$52.1 million, including approximately \$0.3 million in net operating assets, paid through assumption or refinancing of \$42.8 million of debt on the properties and \$9.3 million paid in operating partnership units with an imputed value of \$13.50 per unit. Under the terms of the exchange agreements, we issued 689,000 operating partnership units at closing, and will issue an additional 74,000 deferred units in March 2006. The preliminary allocation of the purchase price includes the following significant components:

Property	Apt. Units	Contract Price	Debt Assumed	Val Oper Partners
		(000's)	(000's)	(0
Canterbury Apartments	630	\$ 25,750	\$ 22,992	\$
Laurel Springs Apartments	240	14,610	11,320	
Laurel Springs II Apartments	96	7,090	5,850	
Salem Ridge Apartments	120	4,360	2,610	

We operate Laurel Springs and Laurel Springs II Apartments as one community. The assets and liabilities of these apartment communities are included in our consolidated financial statements as of March 31, 2005. However, no operating results for these communities are reflected in our consolidated statement of operations for the first quarter of 2005.

Immediately upon completion of this acquisition, we retired a \$1.5

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million variable rate note related to Canterbury Apartments. The remaining assumed debt includes three fixed-rate notes totaling \$35.4 million at interest rates ranging from 5.0% to 6.8% and a \$5.9 million variable-rate note with interest at 30-day LIBOR plus 1.9%. We have included a more detailed description of these notes payable in Note 4 of our financial statements in this Current Report on Form 10-Q.

### Other acquisitions

During the second quarter of 2005, we completed two additional apartment property acquisitions in separate cash transactions. Both properties are located in the Charleston, South Carolina, area.

Property	Apt. Units	Contract Price
		(000's)
Waverly Place Apartments	240	\$13,100
Paces Watch Apartments	232	\$20,450

In conjunction with these acquisitions, we issued two fixed-rate notes payable totaling \$25.0 million. Both notes provide for interest at 5.31% (5.38% effective rate), interest-only payments through mid-2008, and then amortizing payments through mid-2015. A more detailed description of these notes payable is included in Note 4 of our financial statements in this Current Report on Form 10-Q.

In addition, during the second quarter of 2005, we acquired approximately 40 acres of undeveloped land adjacent to our Canterbury Apartments property for a contract price of \$2.7 million, paid by \$0.6 million in cash and the assumption of \$2.1 million in debt, which bears interest at the lender's prime rate and matures in September 2005. In September 2005, we modified the note to extend maturity to September 2006 with interest at 30-day LIBOR plus 1.98%.

### Sale of apartment community pending at September 30, 2005

During the third quarter of 2005, we received and accepted an unsolicited offer for Savannah Shores Apartments, located in Myrtle Beach, South Carolina. We typically purchase apartment properties with the expectation of holding and operating them for the long term; however, we believe that accepting that offer is in the best interest of our shareholders.

We acquired Savannah Shores Apartments in July 2004 for an initial purchase price of \$12.5 million, paid through issuance of operating partnership units with total imputed value of \$0.1 million, assumption of \$12.2 million in debt obligations, and assumption of \$0.2 million net operating liabilities in excess of operating assets acquired. The acquisition agreement provided for potential earn-out of additional purchase consideration of up to \$1.7 million within a three-year period upon attainment of certain performance standards or upon sale of the property, to be

funded through issuance of additional operating partnership units with an imputed value of \$13.00 per unit to the contributors. Accordingly, we have recorded \$1.7 million additional consideration due for this acquisition in our balance sheet as of September 30, 2005.



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In accordance with GAAP, we have reflected the real estate assets and related note payable related to Savannah Shores as assets held for sale on our balance sheet at September 30, 2005, and we have presented the operating results of the community as discontinued operations in our statements of operations for all periods presented. The change in presentation for this community does not have any impact on our financial condition or overall results of operations for the periods presented in the financial statements.

### Debt refinancing transactions

During the second quarter of 2005, in conjunction with refinancing of existing debt, we issued two fixed-rate notes payable totaling \$22.6 million. The new notes provide for interest at 5.21% (5.28% effective rate), interest-only payments through mid-2008, and then amortizing payments through mid-2015. We applied proceeds of these notes to retire an \$11.5 million variable-rate note payable, to retire a \$5.5 million 8.55% fixed-rate note payable, and to reduce the outstanding balance on our line of credit. A more detailed description of these transactions is included in Note 4 of our financial statements in this Current Report on Form 10-Q.

### Line of credit facilities

In conjunction with the various acquisition and financing transactions described above, we made net draws on our lines of credit secured by Latitudes Apartments and our restaurant properties totaling \$6.0 million during the first nine months of 2005. In June 2005, we modified our line of credit secured by 40 restaurant properties to extend the maturity date to January 2008. At September 30, 2005, we have \$11.0 million available under our revolving line of credit secured by Latitudes Apartments.

### Other equity transactions

Effective August 1, 2005, the Board of Directors granted and issued 200,000 restricted shares of the company's common stock to four of our executive officers. We refer to these shares as "nonvested shares" in our consolidated financial statements. All of the shares were unvested on the date of grant, and will vest 10% per year beginning July 1, 2006, and on each July 1 thereafter until fully vested. Because grantees fully participate in dividends, the fair value of the nonvested shares is equal to the market value at the grant date, \$15.70 per share, or a total of \$3.1 million. We will account for the nonvested shares under the fair value and compensation expense recognition provisions of FASB Statement 123(R) - see our discussion below under the caption "Critical Accounting Policies - Accounting for stock compensation."

During the first three quarters of 2005, we also:

- o Issued 57,500 shares of our common stock upon exercise of options by two employees for proceeds of \$0.7 million; and
- o Issued 73,000 shares of our common stock to redeem the same number of operating partnership units from a minority unitholder.
- o Issued 38,000 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of \$0.6 million;

At September 30, 2005, we had 9.5 million common shares and 0.9 million preferred shares outstanding. In addition, there were 2.4 million operating partnership minority common units outstanding.

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### Cash Flows and Liquidity

Net cash flows from operating activities were \$3.9 million in the third quarter of 2005, compared to \$3.0 million in the third quarter of 2004. Net cash flows from operating activities were \$11.2 million in the first nine months of 2005, compared to \$8.3 million in the first nine months of 2004. The amounts for 2005 include a \$0.5 million prepayment penalty paid by the Marina Shores Partnership in conjunction with refinance of its long-term debt in first quarter. The increases in comparative amounts reflect the growth in size of our apartment operations.

Investing and financing activities, other than those described under "Capital Resources" above, focused on capital expenditures at apartment communities, along with payment of dividends and distributions.

We have announced that the company will pay a regular quarterly dividend of \$0.25 per share (approximately \$2.4 million) on November 15, 2005, to shareholders of record of our common stock as of November 1, 2005, as well as \$250,000 of dividends to the preferred shareholder.

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 future 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.

### Investing and financing transactions subsequent to September 30, 2005

In October 2005, we sold Savannah Shores for a contract price of \$22.75 million to an unaffiliated third party. In conjunction with this disposition, we retired a \$9.0 million variable rate note payable secured by a mortgage and assignment of rents of the apartment community. We also issued 130,770 operating partnership units with a total imputed value of \$1.7 million for payment of the earn-out of additional purchase price consideration on the property. We reinvested the net proceeds of approximately \$13.0 million in two apartment properties through tax-deferred exchanges under Section 1031 of the Internal Revenue Code, as follows:

- o We acquired the Hamptons at Quail Hollow Apartments for a contract price of \$17.5 million, from an unaffiliated third party. In conjunction with this acquisition, we made an initial draw of \$9.4 million on a newly established \$13.0 million line of credit that carries a variable interest rate of 30-day LIBOR plus 1.65% and matures in November 2008; and
- o We acquired the Timbers Apartments for a contract price of \$22.45 million, from an unaffiliated third party. In conjunction with this acquisition, we issued a \$17.3 million

note payable. This note bears interest at a fixed rate of 5.45%, with interest only payable for ten years, and matures in November 2015.

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In October 2005, we notified the holder of our Series B Cumulative Convertible Preferred Stock ("preferred stock") that the company is exercising its option to redeem all 909,090 shares of such preferred stock effective December 20, 2005. The holder may elect to convert some or all of the shares of preferred stock to shares of the company's common stock on a one-for-one basis; or we will redeem the preferred stock for cash, priced by reference to the average daily closing price of the company's common stock for the 30 trading days prior to the redemption closing.

### Critical Accounting Policies

We identify and discuss our significant accounting policies in the notes to our financial statements included in our Annual Report on Form 10-K. Our policies and practice regarding our accounting for our general partner interests in limited partnerships, for acquisitions, capital expenditures and depreciation, and for stock compensation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

### Accounting for VIEs

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 46, "Consolidation of Variable Interest Entities," ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provided a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is an entity or other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has equity owners that, as a group, are unable to make significant decisions about its activities, or (3) has equity owners that, as a group, do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46, as modified, requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a "variable interest holder") is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the "primary beneficiary." Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

We determined that the Villages Partnership is a VIE, because the limited partnership does not have sufficient equity to carry out its principal activities without additional subordinated financial support from the general partner. We also determined that we are the primary beneficiary of the Villages Partnership. We have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005.

Accounting for general partner interests in limited partnerships

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As managing general partner in three real estate limited partnerships, we have the ability to exercise significant influence over operating and financial policies. This influence is evident in the terms of the respective partnership agreements. In acting as the general partner in these limited partnerships, we are committed to providing additional levels of funding to meet partnership operating deficits as may be needed.

If we, as general partner, control a partnership that is not considered a VIE, generally accepted accounting principles require that the partnership be consolidated in our financial statements. Upon consolidation, we initially record our interest in the partnership's assets and liabilities at the lower of our cost or fair value, and subsequently account for the partnership based on our percentage interest; the non-controlling interests are reflected in our financial statements at their historical costs.

We determined that the Marina Shores Partnership is not a VIE. However, under the terms of the partnership agreement for the Marina Shores Partnership, the general partner controls the activities of partnership; we have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005.

We determined that the Villages - Phase 5 Partnership is not a VIE. Under the terms of the partnership agreement for the Villages - Phase 5 Partnership, and in accordance with FSP SOP 78-9-1 issued in July 2005, the general partner controls the activities of the partnership. We have included the accounts of this partnership in our consolidated financial statements effective July 2005, and have applied a retrospective application of guidance in FSP SOP 78-9-1 as if we had consolidated this partnership effective January 26, 2005. (See Note 3 to our financial statements included in this Current Report on Form 10-Q.)

### Purchase price allocation for apartment community acquisitions

In connection with the acquisition of an apartment community, we perform a valuation and allocation to each significant asset and liability in such transaction, based on their estimated fair values at the date of acquisition. The valuation of assets acquired includes both tangible and intangible assets. Significant tangible asset values include real estate investments, which we subsequently depreciated over their estimated useful lives. We include an estimate of intangible asset values, consisting of at-market, in-place leases, in intangible assets and amortize these amounts over the remaining lease terms. In general, the average remaining life of in-place leases at acquisition date ranged from five to nine months, and intangible assets represented approximately 0.1% to 0.3% of contract prices.

### Capital expenditures and depreciation

In general, for the 15 apartment properties acquired before 2002, 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 apartment properties acquired in 2002 and later, we have or will perform analyses of components of the real estate assets acquired. For these properties, we assign estimated useful lives as follows: base building structure, 43-60 years; land improvements, 7-20 years; short-lived building components, 5-20 years; and fixtures, equipment and floor coverings, 5-10 years.

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

Capital expenditures at our owned apartment communities during the first nine months of 2005 totaled \$5.8 million, including \$1.5 million for acquisition improvements, \$0.7 million for casualty replacements, \$1.6 million for additions and betterments, and \$2.0 million for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our owned apartment communities during the first nine months of 2005 totaled \$6.4 million, including \$2.4 million in compensation of service staff and \$4.0 million in payments for material and contracted services.

A summary of capital expenditures at our owned apartment communities through September 30, 2005, in aggregate and per apartment unit, follows:

	Total	Per
	-----	-----
	(000's)	
Recurring capital expenditures:		
Floor coverings	\$ 882	
Appliances/HVAC	367	
Computer/support equipment	64	
Other	675	
	-----	-----
	\$ 1,988	
	=====	=====
Non-recurring capital expenditures:		
Acquisition improvements at apartment properties	\$ 1,465	
Casualty replacements	665	
Additions and betterments at apartment properties	1,450	
Computer/support equipment	242	
	-----	-----
	\$ 3,822	
	=====	=====

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

### Accounting for stock compensation

The company has one employee Stock Option and Incentive Plan in place, which is described more fully in Note 5 to the financial statements included in this Current Report.

Prior to July 1, 2005, we accounted for this plan using the intrinsic value method under the recognition and measurements principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by FASB Statement 123, "Accounting for Stock-Based Compensation." No stock-based employee compensation cost was reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. All outstanding options were fully vested prior to the end of 2004.

Effective July 1, 2005, we adopted the fair value recognition provisions of FASB Statement 123(R), "Share Based Payment," ("FAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost recognized in the second half of 2005 includes compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). If any outstanding options had not been fully vested as of July 1, 2005, we would also record compensation cost for all such share-based payments granted prior to that date based on grant date fair values estimated in accordance with the original provisions of Statement 123.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We completed a number of significant acquisition and financing transactions during the first nine months of 2005.

As of September 30, 2005, long-term debt, on a consolidated basis, totaled \$413.6 million, including \$340.5 million of notes payable at fixed rates ranging from 5.0% to 7.4%, and \$73.1 million at variable rates indexed primarily on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.9% at September 30, 2005, compared to 5.9% at December 31, 2004. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$0.7 million.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on instruments in place as of September 30, 2005 (all amounts in thousands).

	Expected maturity dates					
	2005	2006	2007	2008	2009	Later
Fixed rate notes	\$ 713	\$ 2,914	\$50,922	\$42,827	\$32,173	\$210,925
Average interest rate	5.8%	5.8%	6.9%	6.5%	5.2%	6.1%
Variable rate notes	\$ 46	\$ 8,026	\$27,328	\$15,863	\$21,883	-
Average interest rate	5.8%	5.8%	5.6%	5.7%	5.7%	-

#### Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information disclosed in our annual and periodic reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, we designed these disclosure controls and procedures to

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ensure that this information is accumulated and communicated to our management, including our chairman, chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

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Based on our most recent evaluation, which was completed as of the end of the third quarter of 2005, our chairman, 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

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

Exhibit No.

- 10.1 Description of Employment Agreements with Executive Officers effective August 1, 2005
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chairman
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
- 31.3 Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chairman, Chief Executive Officer, and Chief Financial Officer

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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)

November 4, 2005

/s/ Philip S. Payne

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Philip S. Payne  
Chairman

November 4, 2005

/s/ Pamela B. Bruno

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Pamela B. Bruno  
Vice President, Treasurer and  
Chief Financial Officer

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