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AMERIVEST PROPERTIES INC
Form 10QSB
August 13, 2002

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2002.

OR

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

For the transition period from _____ to _____

Commission file number 1-14462

AmeriVest Properties Inc.
(Exact name of small business issuer as specified in its charter)

| | |
|---|--------------------------------------|
| Maryland | 84-1240264 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1780 South Bellaire Street | |
| Suite 515, Denver, Colorado | 80222 |
| (Address of principal executive offices) | (Zip Code) |

(303) 297-1800
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of August 13, 2002 the Registrant had outstanding 10,906,753 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes No X

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AMERIVEST PROPERTIES INC. CONSOLIDATED BALANCE SHEETS

| | June 30, 2002 | December 31, 2001 |
|---|------------------|----------------------|
| | ----- | ----- |
| | (unaudited) | |
| ASSETS | | |
| Investment in real estate- | | |
| Land | \$ 14,137,891 | \$ 14,137,891 |
| Buildings and improvements | 68,778,039 | 67,433,077 |
| Furniture, fixtures and equipment | 326,450 | 237,441 |
| Tenant improvements | 2,238,305 | 1,788,941 |
| Tenant leasing commissions | 374,335 | 302,333 |
| Less: accumulated depreciation and amortization | (4,441,680) | (3,058,666) |
| | ----- | ----- |
| Net investment in real estate | 81,413,340 | 80,841,027 |
| | | |
| Cash and cash equivalents | 21,416,676 | 1,119,351 |
| Escrow deposits | 647,918 | 673,211 |
| Investment in unconsolidated affiliate | 1,212,560 | 1,243,291 |
| Due from related party | 2,456,831 | 2,403,591 |

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| | | |
|---|----------------|--------------|
| Accounts receivable | 837,054 | 495,95 |
| Deferred rents receivable | 511,157 | 374,39 |
| Deferred financing costs, net of accumulated amortization of \$200,397 and \$118,751, respectively | 530,145 | 597,88 |
| Prepaid expenses and other assets | 1,237,639 | 272,56 |
| | ----- | ----- |
| Total assets | \$ 110,263,320 | \$ 88,021,28 |
| | ===== | ===== |
| LIABILITIES | | |
| Mortgage loans and notes payable | \$ 59,250,786 | \$ 58,408,42 |
| Accounts payable and accrued expenses | 990,452 | 838,60 |
| Due to related party | 182,173 | 494,53 |
| Accrued real estate taxes | 762,925 | 1,564,34 |
| Prepaid rents and security deposits | 956,429 | 883,11 |
| Dividends payable | 1,360,807 | 835,28 |
| | ----- | ----- |
| Total liabilities | 63,503,572 | 63,024,29 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$.001 par value | | |
| Authorized - 5,000,000 shares | | |
| Issued and outstanding - none | -- | -- |
| Common stock, \$.001 par value | | |
| Authorized - 15,000,000 shares | | |
| Issued and outstanding - 10,886,454 and 6,682,259 shares, respectively | 10,886 | 6,68 |
| Capital in excess of par value | 54,325,242 | 31,132,65 |
| Distributions in excess of accumulated earnings | (7,576,380) | (6,142,34) |
| | ----- | ----- |
| Total stockholders' equity | 46,759,748 | 24,996,98 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 110,263,320 | \$ 88,021,28 |
| | ===== | ===== |

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

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AMERIVEST PROPERTIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Month Periods Ended June 30, | | For the Month Period June 30 |
|--------------------------------|--|--------------|------------------------------------|
| | 2002 | 2001 | 2002 |
| | ----- | ----- | ----- |
| | (unaudited) | (unaudited) | (unaudited) |
| REAL ESTATE OPERATING REVENUE | | | |
| Rental revenue | \$ 3,528,818 | \$ 2,819,810 | \$ 7,154,870 |
| REAL ESTATE OPERATING EXPENSES | | | |

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| | | | |
|---|------------|------------|------------|
| Property operating expenses- | | | |
| Operating expenses | 887,391 | 681,249 | 1,773,486 |
| Real estate taxes | 257,799 | 226,222 | 624,822 |
| Management fees | 31,820 | 141,545 | 59,882 |
| General and administrative expenses | 379,326 | 195,336 | 731,634 |
| Impairment of deferred rents receivable | -- | 326,113 | -- |
| Interest expense | 920,170 | 894,575 | 1,818,526 |
| Depreciation and amortization expense | 706,149 | 792,011 | 1,391,079 |
| | ----- | ----- | ----- |
| | 3,182,655 | 3,257,051 | 6,399,429 |
| | ----- | ----- | ----- |
| OTHER INCOME | | | |
| Interest income | 50,816 | 9,444 | 52,897 |
| Equity in loss of unconsolidated affiliates | (23,649) | -- | (44,046) |
| | ----- | ----- | ----- |
| | 27,167 | 9,444 | 8,851 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE GAIN ON SALE OF REAL ESTATE | 373,330 | (427,797) | 764,292 |
| | ----- | ----- | ----- |
| GAIN ON SALE OF REAL ESTATE | -- | 1,143,698 | -- |
| | ----- | ----- | ----- |
| NET INCOME | \$ 373,330 | \$ 715,901 | \$ 764,292 |
| | ===== | ===== | ===== |
| NET INCOME PER COMMON SHARE | | | |
| Basic | \$ 0.04 | \$ 0.22 | \$ 0.10 |
| | ===== | ===== | ===== |
| Diluted | \$ 0.04 | \$ 0.21 | \$ 0.10 |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | | |
| Basic | 8,688,314 | 3,268,056 | 7,698,139 |
| | ===== | ===== | ===== |
| Diluted | 8,891,825 | 3,413,289 | 7,879,376 |
| | ===== | ===== | ===== |

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

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AMERIVEST PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Month Periods Ended
June 30,

| | | |
|--|-------------|-------------|
| | ----- | ----- |
| | 2002 | 2001 |
| | ----- | ----- |
| | (unaudited) | (unaudited) |

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| | | |
|--|---------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 764,292 | \$ 760,471 |
| Adjustments to reconcile net income to net cash from operating activities- | | |
| Gain on sale of real estate | -- | (1,143,698) |
| Depreciation and amortization expense | 1,391,079 | 1,133,066 |
| Amortization of deferred financing costs | 81,646 | 45,732 |
| Amortization of warrants | 9,209 | 29,869 |
| Equity in loss of unconsolidated affiliates | 44,046 | 10,843 |
| Impairment of deferred rents receivable | -- | 326,113 |
| Accrued interest added to mortgage loans | -- | 123,894 |
| Increase (decrease) in cash due to changes in: | | |
| Accounts receivable | 125,961 | (122,213) |
| Deferred rents receivable | (136,765) | (74,861) |
| Prepaid expenses and other assets | (100,976) | (89,968) |
| Accounts payable and accrued expenses | (250,281) | 345,589 |
| Other accrued liabilities | (728,103) | (605,133) |
| | ----- | ----- |
| Net cash from operating activities | 1,200,108 | 739,704 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Improvements to real estate | (1,889,161) | (3,419,118) |
| Deposit on real estate acquisition | (200,000) | -- |
| Net advances to unconsolidated affiliate | (377,295) | -- |
| Net proceeds from the sale of real estate | -- | 458,030 |
| Acquisition of Sheridan Plaza at Inverness, LLC, net of cash acquired | -- | (344,432) |
| Leasing commissions paid | (74,231) | (45,838) |
| Decrease in escrow deposits | 25,295 | 138,701 |
| | ----- | ----- |
| Net cash from investing activities | (2,515,392) | (3,212,657) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Additions to mortgage loans and notes payable | 2,330,201 | 2,390,330 |
| Payments on mortgage loans and notes payable | (1,554,383) | (423,599) |
| Deposit for establishment of long-term credit facility | (664,094) | -- |
| Deferred financing costs paid | (13,906) | (23,507) |
| Net proceeds from equity offering | 22,868,619 | -- |
| Net proceeds from exercising of options and warrants | 164,780 | 972,093 |
| Dividends paid | (1,518,612) | (768,541) |
| | ----- | ----- |
| Net cash from financing activities | 21,612,605 | 2,146,776 |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 20,297,321 | (326,177) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,119,355 | 1,046,976 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 21,416,676 | \$ 720,799 |
| | ===== | ===== |

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

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AMERIVEST PROPERTIES INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

| | Six Month Periods Ended June 30, | |
|--|-------------------------------------|-------------|
| | 2002 | 2001 |
| | (unaudited) | (unaudited) |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest during the period | \$1,710,114 | \$1,321,243 |
| NON-CASH FINANCING ACTIVITIES: | | |
| Stock issued to the Dividend Re-Investment Plan ("DRIP") | \$ 154,188 | \$ -- |

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

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AMERIVEST PROPERTIES INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2002 (unaudited)

1. Organization -----

AmeriVest Properties Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 25, 1993 and was reincorporated in the State of Maryland in 1999. Effective January 1, 1996, the Company commenced operating as a real estate investment trust ("REIT"). The Company owns and operates, through its wholly-owned subsidiaries, the following properties:

| Property | Location |
|-------------------------------|------------------|
| Sheridan Plaza at Inverness | Englewood, CO |
| Sheridan Center | Denver, CO |
| Kellogg Building | Littleton, CO |
| Panorama Falls (a) | Englewood, CO |
| Arrowhead Fountains | Peoria, AZ |
| Keystone Office Park | Indianapolis, IN |
| Bank of America Buildings (b) | Texas |
| State of Texas Buildings (c) | Texas |

- (a) 20% of the property is owned by the Company, 80% of the property is owned by Freemark Abbey Panorama, LLC as a tenant in common with the Company.

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- (b) These four buildings are leased approximately 63% to Bank of America. The buildings are located in Mineral Wells, Georgetown, Henderson and Clifton, Texas.
- (c) These thirteen buildings are leased primarily to various agencies of the State of Texas. The buildings are located in Arlington, Paris, Marshall, Amarillo, El Paso (2), Belleville, Mission, Clint, Lubbock, Temple, Hempstead and Columbus, Texas.

2. Interim Financial Statements -----

The unaudited consolidated financial statements included herein were prepared from the records of the Company in accordance with accounting principles generally accepted in the United States and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2001. The consolidated results of operations for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements and notes should be read together with the financial statements and notes included in the Company's Form 10-KSB for the year ended December 31, 2001.

3. New Accounting Pronouncements -----

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement", which is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently evaluating the potential impact, if any, the adoption of SFAS No. 143 will have on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS No. 144 establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company's adoption of SFAS No. 144 had no impact on its financial statements.

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4. Agreement with Sheridan Realty Advisors, LLC -----

Effective January 1, 2000 through December 31, 2001, all of the Company's properties were managed under a Property Management and Advisory Agreement (as amended on March 12, 2001, the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also managed the day-to-day operations of the Company and assisted and advised the Board of Directors on real estate acquisitions and investment opportunities. Certain senior members of SRA are members of the Company's management team and of the Company's Board of Directors. In accordance with the Agreement, SRA received an administrative fee, a property management and accounting fee, an advisory fee and a capital project fee for these services. The property management and accounting fee was calculated as 5% of gross collected rents, the advisory fee is calculated as 5% of capital deployed for real property acquisitions and the capital project fee is calculated as 3%

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of the total cost of capital projects in excess of \$100,000. For accounting purposes, the advisory and capital project fees are capitalized with the related acquisition and project costs.

The Agreement was further amended and restated as of December 31, 2001 to provide for the Company's acquisition of SRA's administrative and property management and accounting services business, along with the elimination of those related fees, effective January 1, 2002. As a result, most of SRA's employees, including three of the Company's senior executives, became employees of the Company and manage the day-to-day operations. The three senior executives also remain employees of SRA. SRA continues to advise the Company with respect to capital markets activity, real estate acquisitions and dispositions and major capital projects. For these services, SRA continues to earn the advisory and capital project fees under the amended and restated Agreement.

During 2000, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5.00 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. According to the Agreement, 225,000 of these warrants were granted and vested on the approval date. These vested warrants have an estimated fair value of \$73,668, which is being amortized over the life of the Agreement through December 31, 2003. The remaining 525,000 warrants vest in an amount equal to 2.1% of capital deployed for real property acquisitions. As of June 30, 2002, 436,457 of the remaining 525,000 warrants vested and have an estimated fair value of \$261,691, which has been capitalized with the related acquisition costs.

5. Stock Offering

On May 9, 2002, our Registration Statement became effective with the Securities and Exchange Commission for an offering of 3,600,000 shares of common stock, with a 30-day option to the underwriters to purchase up to an additional 540,000 shares to cover over-allotments, at a price of \$6.05 per share. On May 15, 2002, the Company received \$20,209,850, net of the underwriting commissions and expenses, from the sale of the 3,600,000 shares. On June 11, 2002, the Company received \$3,046,478, net of the underwriting commissions, from the sale of the 540,000 over-allotment shares. After payment of approximately \$400,000 in additional offering expenses, the proceeds will be used to acquire properties, to repay debt, for capital improvements and/or to increase working capital.

6. Mortgage Loans and Notes Payable

On April 4, 2002, the Company drew down the remaining available amount of \$1,030,201 on its loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

During the second quarter of 2002, the Company was approved for a \$29,700,000 long-term credit facility with a major life insurance company. This facility will replace the existing short-term, variable rate mortgage loans on Arrowhead Fountains, the Kellogg Building and Sheridan Center and will bear interest at a fixed rate of 7.4%. This refinancing is expected to close in December 2002, however, the loan is subject to a number of contingencies and there is no assurance that this refinancing will actually occur.

The Company has a short-term revolving credit line from US Bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from

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Sheridan Investments, LLC, a related party. At June 30, 2002, the Company did not have an outstanding balance on either of these lines of credit.

7. Subsequent Event

The Company has entered into a contract to acquire an office property within the next 60 days. The contract is subject to a number of contingencies and there is no assurance that this acquisition will occur.

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

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-QSB and elsewhere.

Results Of Operations

Comparison of the three month period ended June 30, 2002 to the three month period ended June 30, 2001

| | Three Month Periods Ended June 30, | | Change |
|--|---------------------------------------|--------------|------------|
| | 2002 | 2001 | |
| Rental revenue | \$ 3,528,818 | \$ 2,819,810 | \$ 709,008 |
| Property operating expenses- | | | |
| Operating expenses | 887,391 | 681,249 | 206,142 |
| Real estate taxes | 257,799 | 226,222 | 31,577 |
| Management fees | 31,820 | 141,545 | (109,725) |
| General and administrative expenses | 379,326 | 195,336 | 183,990 |
| Impairment of deferred rents receivable | -- | 326,113 | (326,113) |
| Interest expense | 920,170 | 894,575 | 25,595 |
| Depreciation and amortization expense | 706,149 | 792,011 | (85,862) |
| | ----- | ----- | ----- |
| | 3,182,655 | 3,257,051 | (74,396) |
| | ----- | ----- | ----- |
| Other Income- | | | |
| Interest income | 50,816 | 9,444 | 41,372 |
| Equity in loss of unconsolidated affiliate | (23,649) | -- | (23,649) |

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| | | | |
|--|------------------------------|------------------------------|--------------------------------|
| | ----- 27,167 ----- | ----- 9,444 ----- | ----- 17,723 ----- |
| Income (loss) before gain on sale of real estate | ----- 373,330 ----- | ----- (427,797) ----- | ----- 801,127 ----- |
| Gain on sale of real estate | ----- -- ----- | ----- 1,143,698 ----- | ----- (1,143,698) ----- |
| Net Income | ----- \$ 373,330 ===== | ----- \$ 715,901 ===== | ----- \$ (342,571) ===== |

Rental revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Arrowhead Fountains (acquired in November 2001) and the Kellogg Building (acquired in December 2001), offset by the exclusion of the operations of the Giltedge building (sold in June 2001) and the Panorama Falls building (80% of which was sold in December 2001).

Property operating expenses

Operating expenses and real estate taxes increased as a result of the above-mentioned transactions.

The decrease in management fees is due to the Company's acquisition of Sheridan Realty Advisors, LLC ("SRA") administrative and property management and accounting services business, along with the elimination of those related fees, effective January 1, 2002. As a result, most of SRA's employees became employees of the Company and manage the day-to-day operations. At that time, the Company became a self-administered REIT. Subsequent to January 1, 2002, management fees will decrease and general and administrative expenses will increase due to the Company being internally managed versus externally managed in 2000 and 2001.

General and administrative expenses

The increase in general and administrative expenses is due to the above-mentioned acquisition of SRA's administrative and property management and accounting services business.

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Impairment of deferred rents receivable

The charge recorded in 2001 represents an impairment of a deferred rent receivable from a significant tenant, Rhythms NetConnections, Inc., which filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in August 2001. Rhythms no longer occupies any space in any of the Company's buildings.

Interest expense

The increase in interest expense is due to an increase in the average outstanding debt balance for the three-month period ended June 30, 2002 by approximately 37% from the prior year period. The increase in debt is primarily due to the above-mentioned transactions. The effect of the increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on the Company's variable rate debt.

Depreciation and amortization expense

The net decrease in depreciation and amortization expense is due to the accelerated amortization of the Rhythms lease commission recorded during the second quarter of 2001 offset by the overall increase in depreciable assets resulting from the above-mentioned transactions.

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Interest income

Interest income increased due to higher average outstanding cash balances in interest bearing accounts in 2002 resulting from the Company's public offering of 4,140,000 shares of common stock.

Equity in loss of unconsolidated affiliate

The equity in loss of unconsolidated affiliate recognized in 2002 represents the Company's share of the net loss of Panorama Falls. The Company sold 80% of its interest in Panorama Falls in December 2001, retaining its current 20% interest.

Gain on sale of real estate

The gain recognized in 2001 resulted from the sale of the Giltedge building.

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Comparison of the six month period ended June 30, 2002 to the six month period ended June 30, 2001

| | Six Month Periods Ended June 30, | | Change |
|--|-------------------------------------|--------------|--------------|
| | 2002 | 2001 | |
| Rental revenue | \$ 7,154,870 | \$ 4,798,891 | \$ 2,355,979 |
| Property operating expenses- | | | |
| Operating expenses | 1,773,486 | 1,267,898 | 505,588 |
| Real estate taxes | 624,822 | 374,202 | 250,620 |
| Management fees | 59,882 | 242,846 | (182,964) |
| General and administrative expenses | 731,634 | 358,281 | 373,353 |
| Impairment of deferred rents receivable | -- | 326,113 | (326,113) |
| Interest expense | 1,818,526 | 1,490,051 | 328,475 |
| Depreciation and amortization expense | 1,391,079 | 1,133,066 | 258,013 |
| | 6,399,429 | 5,192,457 | 1,206,972 |
| Other Income- | | | |
| Interest income | 52,897 | 21,182 | 31,715 |
| Equity in loss of unconsolidated affiliates | (44,046) | (10,843) | (33,203) |
| | 8,851 | 10,339 | (1,488) |
| Income (loss) before gain on sale of real estate | 764,292 | (383,227) | 1,147,519 |
| Gain on sale of real estate | -- | 1,143,698 | (1,143,698) |

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| | | | |
|------------|------------|------------|----------|
| Net Income | \$ 764,292 | \$ 760,471 | \$ 3,821 |
| | ===== | ===== | ===== |

Rental revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Sheridan Plaza at Inverness, LLC (acquired in April 2001) for the full six months in 2002, Arrowhead Fountains (acquired in November 2001) and the Kellogg Building (acquired in December 2001), offset by the exclusion of the operations of the Giltedge building (sold in June 2001) and the Panorama Falls building (80% of which was sold in December 2001).

Property operating expenses

Operating expenses and real estate taxes increased as a result of the above-mentioned transactions.

The decrease in management fees is due to the afore-mentioned acquisition of SRA's administrative and property management and accounting services business.

General and administrative expenses

The increase in general and administrative expenses is due to the afore-mentioned acquisition of SRA's administrative and property management and accounting services business.

Impairment of deferred rents receivable

The charge recorded in 2001 represents an impairment of a deferred rent receivable from Rhythms.

Interest expense

The increase in interest expense is due to an increase in the average outstanding debt balance for the six-month period ended June 30, 2002 by approximately 55% from the prior year period. The increase in debt is primarily due to the above-mentioned transactions. The effect of the increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on the Company's variable rate debt.

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Depreciation and amortization expense

The net increase in depreciation and amortization expense is due to the overall increase in depreciable assets resulting from the above-mentioned transactions offset by the accelerated amortization of the Rhythms lease commission recorded during the second quarter of 2001.

Interest income

Interest income increased due to higher average outstanding cash balances in interest bearing accounts in 2002 resulting from the Company's public offering of 4,140,000 shares of common stock.

Equity in loss of unconsolidated affiliates

The equity in loss of unconsolidated affiliate recognized in 2002 represents the Company's share of the net loss of Panorama Falls. The Company sold 80% of its interest in Panorama Falls in December 2001, retaining its current 20% interest.

The amount recognized in 2001 represents the Company's share of the net loss of Sheridan Investments, LLC (which owned Sheridan Plaza at Inverness, LLC). The original 9.639% interest in Sheridan Investments, LLC was acquired in September 2000. This interest was then used as partial consideration for the acquisition of 100% of Sheridan Plaza at Inverness, LLC in April 2001.

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Gain on sale of real estate

The gain recognized in 2001 resulted from the sale of the Giltedge building.

Liquidity And Capital Resources

Liquidity

Net cash from operations for the six month period ended June 30, 2002 was approximately \$1.2 million and is the primary source of liquidity to fund distributions, debt service and capital expenditures. The Company also has lines of credit available to assist with such cash needs. In May 2002, the Company completed a public offering of common stock, which raised approximately \$22.9 million, net of commissions and expenses. The proceeds will be used to acquire properties, to repay debt, for capital improvements and/or to increase working capital.

The Company has entered into a contract to acquire an office property within the next 60 days. The contract is subject to a number of contingencies and there is no assurance that this acquisition will occur.

Management believes that the cash flow from its existing properties and future acquisitions, together with its existing lines of credit, will be sufficient to meet the Company's working capital needs and distribution requirements for the next year and beyond.

The Company desires to acquire additional properties. In order to do so, it will need to raise additional debt or equity capital. The Company also intends to obtain credit facilities for short and long-term borrowing with commercial banks or other financial institutions. The issuance of such securities or increase in debt for additional properties, of which there is no assurance, could adversely affect the amount of cash available to pay dividends to stockholders.

Financing

Mortgage loans are collateralized by all properties. The following table details the scheduled maturities of mortgages as of June 30, 2002:

| | |
|------------|--------------|
| 2002 | \$ 266,127 |
| 2003 | 23,427,804 |
| 2004 | 9,654,927 |
| 2005 | 488,010 |
| 2006 | 14,579,886 |
| Thereafter | 10,834,032 |
| | ----- |
| Total | \$59,250,786 |
| | ===== |

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Included in the 2003 maturities is the outstanding balance on the mortgage loan on Panorama Falls in the amount of \$3,071,038. Although the Company sold 80% of its interest in the property, the Company has retained 100% of the loan balance on its balance sheet due to its continued obligation. As an offset, the Company has recorded a receivable for 80% of this amount as due from related party, with the remaining 20% included in the investment in unconsolidated affiliate balance.

As of June 30, 2002, total mortgage loans (including the Panorama Falls

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mortgage loan) consisted of approximately \$27.0 million of fixed rate debt with a weighted-average interest rate of approximately 7.9% and approximately \$32.3 million of variable rate debt with a weighted-average interest rate of approximately 4.5%.

On April 4, 2002, the Company drew down the remaining available amount of \$1,030,201 on its loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

During the second quarter of 2002, the Company was approved for a \$29,700,000 long-term credit facility with a major life insurance company. This facility will replace the existing short-term, variable rate mortgage loans on Arrowhead Fountains, the Kellogg Building and Sheridan Center and will bear interest at a fixed rate of 7.4%. This refinancing is expected to close in December 2002, however, the loan is subject to a number of contingencies and there is no assurance that this refinancing will actually occur.

The Company has a short-term revolving credit line from US Bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At June 30, 2002, the Company did not have an outstanding balance on either of these lines of credit.

Inflation

Management believes that inflation should not have a material adverse effect on the Company. The Company's office leases require the tenants to pay increases in operating expenses should any inflationary pressures materialize.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. Although the Company believes that the expectations reflected in the forward-looking statements and the assumptions upon which the forward-looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to have been correct. See the Company's Annual Report on Form 10-KSB for additional statements concerning important factors, including occupancy and rental rates and operating costs that could cause actual results to differ materially from the Company's expectations.

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Part II. Other Information

Item 1. Legal Proceedings

No changes.

Item 4. Submission Of Matters To A Vote Of Security Holders

At the annual meeting of shareholders held May 23, 2002, shareholders elected the following individuals to serve on the Board, each as a Class 3 Director:

| Name | Shares Voted in Favor | Shares Voted Against | Absentions and Non-votes |
|------|--------------------------|-------------------------|-----------------------------|
| ---- | ----- | ----- | ----- |

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| | | | |
|-------------------|-----------|-----|--------|
| William T. Atkins | 6,298,695 | -0- | 17,925 |
| Robert W. Holman | 6,298,695 | -0- | 17,925 |

Item 6. Exhibits And Reports On Form 8-K

- (a) On August 9, 2002, the Registrant filed a Current Report on Form 8-K regarding a change of independent auditors.

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.

AMERIVEST PROPERTIES INC.

August 13, 2002

By: /s/ D. Scott Ikenberry

D. Scott Ikenberry
Chief Financial Officer

1. The undersigned are the Chief Executive Officer and the Chief Financial Officer of AmeriVest Properties Inc. This Certification is made pursuant to 18 U.S.C.ss.1350 (Section 906 of the Sarbanes-Oxley Act of 2002). This Certification accompanies the 10-QSB Report of AmeriVest Properties Inc. for the quarter ended June 30, 2002.
2. We certify that such 10-QSB Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such 10-QSB Report fairly presents, in all material respects, the financial condition and results of operations of AmeriVest Properties Inc.

This Certification is executed as of August 13, 2002.

By: /s/ William T. Atkins

William T. Atkins
Chief Executive Officer

By: /s/ D. Scott Ikenberry

D. Scott Ikenberry
Chief Financial Officer