

AMERIVEST PROPERTIES INC  
Form 10-Q  
November 07, 2006

# **SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

## **FORM 10-Q**

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

For the quarterly period ended September 30, 2006.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-14462

## AMERIVEST PROPERTIES INC.

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**84-1240264**

(I.R.S. Employer Identification No.)

**1780 South Bellaire Street  
Suite 100, Denver, Colorado**

(Address of principal executive offices)

**80222**

(Zip Code)

**(303) 297-1800**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of the registrant's common stock outstanding as of October 31, 2006 was 24,114,316.

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****AMERIVEST PROPERTIES INC.****Condensed Consolidated Statement of Net Assets in Liquidation**

|   | <b>September 30,<br/>2006<br/>(unaudited)</b> |
|---|---|
| <b><u>ASSETS</u></b>  |   |
| Real estate assets  | \$ 198,322,283                                |
| Cash and cash equivalents                                       | 48,604,609                                    |
| Escrow deposits and restricted cash                             | 4,098,449                                     |
| Accounts receivable   | 141,139                                       |
| Prepaid expenses and other assets                               | 419,722                                       |
| Total assets  | \$ 251,586,202                                |
| <b><u>LIABILITIES</u></b>                                       |   |
| Secured mortgage loans and notes payable                        | \$ 107,297,229                                |
| Accounts payable and accrued expenses                           | 1,913,849                                     |
| Earnest money from Koll/PER                                     | 2,000,000                                     |
| Accrued real estate taxes                                       | 2,562,028                                     |
| Prepaid rents and security deposits                             | 1,790,773                                     |
| Estimated net liability for costs during the liquidation period | 5,648,777                                     |
| Total liabilities   | 121,212,656                                   |
| Net assets in liquidation (available to common stockholders)    | \$ 130,373,546                                |

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

## AMERIVEST PROPERTIES INC.

Condensed Consolidated Balance Sheet  
(Going Concern Basis)

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

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

## AMERIVEST PROPERTIES INC.

Condensed Consolidated Statements of Changes in Net Assets in Liquidation  
(unaudited)

|   | For the Three<br>Months Ended<br>September 30, 2006 | For the period from<br>June 1, 2006 to<br>September 30, 2006 |
|---|---|--|
| <b>Net assets in liquidation, beginning of period</b>             | \$ 122,155,305                                      | \$ 122,579,044   |
| <b>Changes in net assets in liquidation:</b>                      |   |  |
| Changes to net liability for costs during the liquidation period: |   |  |
| Excess of revenues over expenses                                  | 1,582,081   | 1,364,206  |
| Change in estimated costs during the liquidation period           | (1,003,184  | ) (1,003,184   |
| Change to net liability for costs during the liquidation period   | 578,897   | 361,022  |
| Change in fair value of real estate investments                   | 6,033,702   | 6,033,702  |
| Change in assets and liabilities                                  | 1,605,642   | 1,399,778  |
| <b>Change in net assets in liquidation</b>                        | 8,218,241   | 7,794,502  |
| <b>Net assets in liquidation, end of period</b>                   | \$ 130,373,546                                      | \$ 130,373,546   |

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

## AMERIVEST PROPERTIES INC.

**Condensed Consolidated Statements of Operations**  
**(Going Concern Basis)**  
**(unaudited)**

|   | Five Months<br>Ended<br>May 31, 2006 | Three Months<br>Ended<br>September 30, 2005 | Nine Months Ended<br>September 30, 2005 |
|---|--------------------------------------|---|---|
| <b>Real Estate Operating Revenue:</b>                   |                                      |   |   |
| Rental revenues   | \$ 14,548,386                        | \$ 8,609,254                                | \$ 25,952,853                           |
| <b>Real Estate Operating Expenses:</b>                  |                                      |   |   |
| Property operating expenses -                           |                                      |   |   |
| Operating expenses                                      | 4,254,952                            | 2,307,499                                   | 6,901,892                               |
| Real estate taxes                                       | 1,812,772                            | 974,461                                     | 3,527,521                               |
| General and administrative expenses                     | 2,084,652                            | 1,043,395                                   | 3,735,406                               |
| Interest expense  | 3,533,086                            | 3,111,792                                   | 8,860,849                               |
| Depreciation and amortization expense                   | 5,265,388                            | 3,247,678                                   | 9,691,171                               |
| Strategic alternative and liquidation expenses          | 249,435                              | 38,683                                      | 145,272                                 |
| Total operating expense                                 | 17,200,285                           | 10,723,508                                  | 32,862,111                              |
| Loss from continuing operations                         | (2,651,899                           | ) (2,114,254                                | ) (6,909,258                            |
| <b>Other Income:</b>                                    |                                      |   |   |
| Interest income and other                               | 129,747                              | 24,525                                      | 42,529                                  |
| Total other income                                      | 129,747                              | 24,525                                      | 42,529                                  |
| Loss before discontinued operations                     | (2,522,152                           | ) (2,089,729                                | ) (6,866,729                            |
| Net earnings/(loss) from discontinued operations        | 15,046,598                           | (3,340,714                                  | ) (4,238,559                            |
| Net earnings/(loss)                                     | \$ 12,524,446                        | \$ (5,430,443                               | ) \$ (11,105,288                        |
| <b>Net Earnings/(Loss) per Share Basic and Diluted:</b> |                                      |   |   |
| Net earnings/(loss) before discontinued operations      | \$ (0.10                             | ) \$ (0.09                                  | ) \$ (0.28                              |
| Discontinued operations, net                            | 0.62                                 | (0.14                                       | ) (0.18                                 |
| Net earnings/(loss)                                     | \$ 0.52                              | \$ (0.23                                    | ) \$ (0.46                              |
| <b>Weighted Average Common Shares Outstanding:</b>      |                                      |   |   |
| Basic   | 24,124,735                           | 24,074,937                                  | 24,044,762                              |
| Diluted   | 24,128,907                           | 24,074,937                                  | 24,044,762                              |

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



**AMERIVEST PROPERTIES INC.**

**Condensed Consolidated Statement of Stockholders Equity  
and Comprehensive Income  
(Going Concern Basis)**

**Five Months Ended May 31, 2006  
(unaudited)**

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

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

## AMERIVEST PROPERTIES INC.

**Condensed Consolidated Statements of Cash Flows**  
**(Going Concern Basis)**  
**(unaudited)**

|  | Five Months<br>Ended May 31,<br>2006 | Nine Months<br>Ended<br>September 30,<br>2005 |
|--|--------------------------------------|---|
| <b>Cash Flows from Operating Activities:</b>   |                                      |   |
| Net earnings/(loss)  | \$ 12,524,446                        | \$ (11,105,288 )                              |
| Adjustments to reconcile net earnings/(loss) to net cash provided by operating activities- |                                      |   |
| Depreciation and amortization expense  | 5,314,189                            | 14,378,955                                    |
| Loss/(gain) on sale of real estate, net  | (15,327,481 )                        | 20,803  |
| Impairment of assets held-for-sale   |                                      | 2,720,826                                     |
| Amortization of deferred financing costs   | 178,107                              | 1,088,878                                     |
| Write-off of unamortized deferred financing costs  | 301,463                              | 215,993                                       |
| Minority interest  |                                      | (285,369 )                                    |
| Equity-based compensation  | 30,925                               | 534,393                                       |
| Changes in assets and liabilities-   |                                      |   |
| Accounts receivable  | 657,998                              | 248,096                                       |
| Deferred rent receivable   | (153,787 )                           | (936,032 )                                    |
| Prepaid expenses and other assets  | 430,378                              | (351,286 )                                    |
| Accounts payable and accrued expenses  | (2,150,251 )                         | (1,259,777 )                                  |
| Other accrued liabilities  | (1,886,216 )                         | 282,301                                       |
| Net cash flows provided by/(used in) operating activities                                  | (80,229 )                            | 5,552,493                                     |
| <b>Cash Flows from Investing Activities:</b>   |                                      |   |
| Capital expenditures   | (203,614 )                           | (2,027,079 )                                  |
| Tenant improvements  | (1,354,519 )                         | (4,044,453 )                                  |
| Leasing commissions  | (877,590 )                           | (2,057,079 )                                  |
| Proceeds from sales, net of closing costs  | 61,704,117                           | 4,432,197                                     |
| Cash paid to complete deed-in-lieu transaction   |                                      | (114,600 )                                    |
| Legal settlement proceeds  |                                      | 450,000                                       |
| Net cash flows provided by/(used in) investing activities                                  | 59,268,394                           | (3,361,014 )                                  |
| <b>Cash Flows from Financing Activities:</b>   |                                      |   |
| Additions to mortgage loans and lines of credit  |                                      | 7,203,233                                     |
| Payments of mortgage loans, lines of credit and notes payable                              | (58,073,709 )                        | (1,000,000 )                                  |
| Regularly scheduled principal payments   | (1,092,898 )                         | (2,322,641 )                                  |
| Payment of deferred financing costs  | (181,387 )                           | (313,446 )                                    |
| Net proceeds from exercising of options and warrants                                       |                                      | 7,501   |
| Net change in escrow deposits  | 1,748,315                            | (3,454,431 )                                  |
| Dividends paid   |                                      | (3,075,074 )                                  |
| Net cash flows used in financing activities  | (57,599,679 )                        | (2,954,858 )                                  |
| Net change in cash and cash equivalents  | 1,588,486                            | (763,379 )                                    |
| Cash and cash equivalents, beginning of period   | 988,420                              | 1,859,660                                     |
| Cash and cash equivalents, end of period   | \$ 2,576,906                         | \$ 1,096,281                                  |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                   |                                      |   |
| Cash paid for interest   | \$ 3,815,831                         | \$ 10,930,480                                 |
| <b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>             |                                      |   |
| Basis of real estate involved in deed-in-lieu transaction                                  | \$                                   | \$ 5,160,022                                  |
| Debt extinguishment as part of deed-in-lieu transaction                                    | \$                                   | \$ 5,565,859                                  |

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|  |    |    |         |
|--|----|----|---------|
| Note receivable related to disposition | \$ | \$ | 364,170 |
|--|----|----|---------|

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

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**AMERIVEST PROPERTIES INC.**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2006**  
**(unaudited)**

**1 Organization and Plan of Liquidation**

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

On February 9, 2006, our Board of Directors approved a plan of liquidation (the Plan), which was approved by our stockholders at the Annual Meeting of Stockholders on May 24, 2006. On July 17, 2006, the Company entered into a definitive agreement (the Agreement) to sell its entire portfolio of office properties to Koll/PER LLC (Koll/PER), a limited liability company owned by The Koll Company of Newport Beach, California and the Public Employee Retirement System of Idaho (PERSI). The gross purchase price is \$273 million (less a reserve for capital expenditures of approximately \$850,000), which includes an assumption of existing property level debt of approximately \$126 million. As of October 31, 2006, we had closed on the sales of six properties. Closings on the remaining properties will be scheduled as loan assumption approvals are received from the Company's mortgage lenders and other traditional closing activities are completed. There can be no assurance that the remainder of the sales will close, or close on the terms described.

Our net assets in liquidation aggregated approximately \$130.4 million or \$5.41 per share on September 30, 2006. This amount represents assets at estimated net realizable values on an undiscounted basis. The amount also includes an estimated net liability for future estimated general and administrative expenses and other costs incurred during the liquidation period and until such time that all obligations have been relieved and distributions made to the Company's stockholders. As not all of the property sales have closed, these estimates contain potential costs that could change as circumstances dictate. There can be no assurance that these estimated values will be realized, nor if the reserve for future estimated general and administrative expenses is adequate. On October 30, 2006, the Board of Directors declared an initial liquidating cash distribution of \$3.50 per share. The distribution will be paid November 16, 2006 to stockholders of record as of November 10, 2006. The timing and amount of additional liquidating distributions (if any) and the final liquidating distribution will depend on the timing and amount of proceeds the Company receives upon the sale of these assets and the extent to which reserves are required.

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

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

**2 Summary of Significant Accounting Policies**

*Liquidation Basis of Accounting*

As a result of the approval of the Plan by our stockholders, we adopted the liquidation basis of accounting as of June 1, 2006, and for all subsequent periods. Accordingly, all assets have been adjusted to their estimated net realizable value. Liabilities, including estimated costs associated with implementing the Plan, have been adjusted to

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

#### *Basis of Presentation*

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

#### *Use of Estimates*

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

#### *Investment in Real Estate*

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

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

probability of the potential property dispositions. Upon determination that a permanent impairment had occurred, rental properties were reduced to their fair value. For properties to be disposed of, an impairment loss was recognized when the fair value of the property as determined through third-party valuations, reduced by the estimated cost to sell, was less than the carrying amount of the property measured at the time we had a commitment to sell the property that was not subject to any significant contingencies. A property to be disposed of was reported at the lower of its carrying amount or its estimated fair value, less its cost to sell. Subsequent to the date that a property was held for disposition, depreciation expense was not recorded. We did not record any impairment losses for the five months ended May 31, 2006. For the three and nine months ended September 30, 2005 we recorded impairment losses of approximately \$2.7 million as part of our incremental evaluation associated with the properties deemed as held-for-sale.

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

#### *Other Intangible Assets*

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

#### *Cash Equivalents*

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

#### *Escrow Deposits*

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

#### *Allowance for Doubtful Accounts*

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

#### *Deferred Leasing and Financing Costs*

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

### *Revenue Recognition*

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

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

### *Concentrations of Credit Risk*

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

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents. The Company maintains cash accounts at three financial institutions and cash is generally invested in investment-grade short-term instruments and the amount of credit exposure to any one commercial issuer is limited. The Company periodically evaluates the credit worthiness of these financial institutions, and maintains cash accounts only in large high-quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. As of September 30, 2006 we had cash accounts in excess of federally insured amounts. We believe this risk is not significant.

### *Discontinued Operations*

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

### 3 - Share-Based Compensation

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

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

year vesting period. During June 2006, an additional 12,000 restricted shares were granted, of which 9,000 are unvested at September 30, 2006. Compensation expense based on the grant fair value of \$4.35 will be recognized over the one year vesting period. We assume that all restricted shares will ultimately vest.

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

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

|   | <b>Three Months<br/>Ended<br/>September 30,<br/>2005</b> | <b>Nine Months<br/>Ended<br/>September 30, 2005</b> |
|---|--|---|
| Net loss as reported  | \$ (5,430,443 )  | \$ (11,105,288 )                                    |
| Plus: Recognized equity-based compensation                        | 206,893  | 534,393   |
| Less: Total equity-based compensation expense based on fair value | (210,675 )   | (543,114 )  |
| Net loss pro forma  | \$ (5,434,225 )  | \$ (11,114,009 )                                    |
| Loss per basic share as reported                                  | \$ (0.23 )   | \$ (0.46 )  |
| Loss per diluted share as reported                                | \$ (0.23 )   | \$ (0.46 )  |
| Loss per basic share pro forma                                    | \$ (0.23 )   | \$ (0.46 )  |
| Loss per diluted share pro forma                                  | \$ (0.23 )   | \$ (0.46 )  |

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

|                       | <b>2004</b> | <b>2003</b> |
|-----------------------|-------------|-------------|
| Dividend yield        | 7.0 %       | 7.9 %       |
| Volatility            | 9.3 %       | 27.0 %      |
| Discount rate         | 2.7 %       | 2.9 %       |
| Expected life (years) | 2.2         | 4.6         |



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

|                       | Number of Options Outstanding | Number of Options Exercisable | Weighted-Average Exercise Price | Weighted-Average Fair Value | Range of Exercise Prices |
|-----------------------|-------------------------------|-------------------------------|---------------------------------|-----------------------------|--------------------------|
| December 31, 2005     | 98,000                        | 86,000                        | \$ 6.34                         |                             | \$ 4.75 - 7.10           |
| Granted at fair value |                               |                               |                                 |                             |                          |
| Exercised             |                               |                               |                                 |                             |                          |
| Forfeited             | (41,000 )                     |                               | \$ 6.48                         |                             | \$ 6.16 - 6.96           |
| Expired               | (12,000 )                     |                               | \$ 4.75                         |                             | \$ 4.75                  |
| September 30, 2006    | 45,000                        | 37,000                        | \$ 6.64                         |                             | \$ 5.70 - 7.10           |

The weighted-average contractual life of options outstanding at September 30, 2006 was approximately 1 year.

#### 4 Real Estate Assets

As of June 1, 2006 the operating properties were adjusted to estimated fair value less estimated selling costs. The following is a summary of the activity relating to the liquidation value of real estate assets from June 30, 2006 through September 30, 2006:

|   | June 30, 2006  | Actual Activity  | Revision of Estimates | September 30, 2006 |
|---|----------------|------------------|-----------------------|--------------------|
| Purchase price per Agreement                                    | \$ 273,000,000 | \$ (65,300,000 ) | \$                    | \$ 207,700,000     |
| Less :  |                |                  |                       |                    |
| Capital improvement escrow                                      | (850,000 )     | 203,750          | 219,807               | (426,443 )         |
| Estimated capital expenditures and leasing commissions          | (3,438,770 )   | 715,079          | 895,431               | (1,828,260 )       |
| Estimated prepayment penalties if certain loans are not assumed | (4,700,000 )   |                  | 1,009,652             | (3,690,348 )       |
| Estimated closing costs   | (3,974,346 )   | 732,868          | 808,812               | (2,432,666 )       |
| Estimated additional costs relating to disposals                | (4,100,000 )   |                  | 3,100,000             | (1,000,000 )       |
| Real estate assets at end of period                             | \$ 255,936,884 | \$ (63,648,303 ) | \$ 6,033,702          | \$ 198,322,283     |

The actual activity includes actual sales prices and related costs for the three properties that were sold in the three month period ending September 30, 2006. The revision of estimates for capital improvement escrow, capital expenditures, prepayment penalties, and closing costs includes revisions of amounts for the three properties that were sold subsequent to September 30, 2006 and a reduction of estimated additional costs relating to future disposals. The estimates for the remaining six properties to be sold include estimated capital expenditures, prepayment penalties and closing and additional costs and such estimates will be adjusted to actual as information is available and upon closing of those remaining properties.

#### 5 Estimated Costs During the Liquidation Period

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



facts and circumstances associated with the disposition of the Company's assets change, the estimated costs during the liquidation period will be reviewed and adjusted as appropriate.

The changes in the estimated net liability for costs during the liquidation period as of September 30, 2006 are as follows:

|   |              |
|---|--------------|
| Estimated net liability for costs during the liquidation period at June 30, 2006      | \$ 6,227,674 |
| Excess of revenue over expenses July through September                                | (1,582,081 ) |
| Change in estimated future costs (1)  | 1,003,184    |
| Estimated net liability for costs during the liquidation period at September 30, 2006 | \$ 5,648,777 |

(1) Primarily due to the reduction of severance, professional fees, and additional estimated costs.

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

|   |              |
|---|--------------|
| Operating expenses of liquidating trust through dissolution | \$ 2,500,000 |
| Severance costs   | 2,000,000    |
| Additional estimated costs during liquidation period        | 1,300,000    |
| Excess of projected revenues over costs                     | (151,223 )   |
| Estimated costs during the liquidation                      | \$ 5,648,777 |

#### 6 Net Assets in Liquidation

Net assets in liquidation increased \$8,218,241 during the three months ended September 30, 2006. The primary reason for the increase was an increase of \$6,033,702 in our real estate assets, due to a revision of the estimated selling costs and certain provisions which we believed could impact the net realizable value of our real estate assets. Also, assets increased over liabilities \$1,605,642 for the period primarily due to the excess of revenue over expenses. In addition, the estimated net liability for costs during the liquidation period decreased \$578,897 due to excess revenue over expenses of \$1,582,081 for the three months ended September 30, 2006 offset by a change in the estimated net liability for costs during the liquidation period of \$1,003,184 due to a reduction of severance, professional fees, and additional estimated costs.

Based on the shares outstanding on September 30, 2006, the net assets in liquidation at September 30, 2006 would result in liquidation distributions of approximately \$5.41 per share. These estimates for liquidation distributions per share include projections of costs and expenses expected to be incurred during the period required to complete the Plan. These projections could continue to change materially based on the timing of any sales, the performance of the underlying assets and change in the underlying assumptions of the projected cash flows. As such, it is not possible to predict the aggregate amount or timing of distributions to stockholders subsequent to our announced distribution planned to occur on November 16, 2006 and that no assurance can be given that the eventual amount of distributions to be paid will equal or exceed the estimated net assets in liquidation included in the financial statements.

#### 7 Dispositions

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

mortgage balance of approximately \$23 million and approximately \$30 million of indebtedness under the Company's Unsecured Credit Facility.

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

*Dispositions under the Agreement with Koll/PER:*

On August 17, 2006, Greenhill Park, a 248,249 square-foot Class A office property, was sold for \$29.8 million. The Company received cash proceeds of approximately \$28.4 million, after closing costs and adjustments.

On September 21, 2006, Scottsdale Norte, a 79,689 square-foot Class A office property, was sold for \$18.0 million. The Company received cash proceeds of approximately \$11.0 million, after payoff of the first mortgage, closing costs and adjustments.

On September 28, 2006, Hackberry View, a 114,598 square-foot office property, was sold for \$17.5 million. The Company received cash proceeds of approximately \$5.5 million, after assignment of the first and second mortgages, closing costs and adjustments.

The net cash proceeds of approximately \$44.9 million from these dispositions under the Agreement with Koll/PER have been accumulated with other proceeds and made available, subject to the expenses and other costs of the Company, for distribution to stockholders under the Plan.

8 Discontinued Operations

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

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

During 2005, the Company completed the disposition of Panorama Falls, AmeriVest Plaza at Inverness and Chateau Plaza and completed a Deed-In-Lieu Agreement to return 13 non-core Texas State Buildings to the lender. During the nine months ended September 30, 2005, the Company wrote-off unamortized deferred financing costs of approximately \$215,993, and recognized a loss of \$20,803 in connection with the Texas State Buildings dispositions, both of which are reflected in discontinued operations during the nine months ended September 30, 2005.

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

|  | <b>Three Months<br/>Ended<br/>September 30,<br/>2005</b> |   | <b>Five Months<br/>Ended<br/>May 31, 2006</b> |   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2005</b> |
|--|--|---|---|---|---|
| Rental revenue   | \$ 3,385,491   |   | \$ 540,283                                    |   | \$ 11,186,449   |
| <b>Property operating expenses -</b>   |  |   |   |   |   |
| Operating expenses   | (1,077,694   | ) | (133,276                                      | ) | (3,429,444  |
| Real estate taxes  | (473,712   | ) | (59,275                                       | ) | (1,625,767  |
| Interest expense   | (1,034,796   | ) | (123,612                                      | ) | (3,097,888  |
| Deferred financing costs and prepayment penalties associated with the disposition of real estate |  |   | (505,003                                      | ) | (215,993  |
| Depreciation and amortization expense  | (1,504,598   | ) |   |   | (4,599,656  |
| Impairment of real estate  | (2,720,826   | ) |   |   | (2,720,826  |
| Total expense  | (6,811,626   | ) | (821,166                                      | ) | (15,689,574   |
| Minority interest  | 84,420   |   |   |   | 285,369   |
| Gain/(loss) on sale  | 1,001  |   | 15,327,481                                    |   | (20,803   |
| Net earnings/(loss) from discontinued operations   | \$ (3,340,714  | ) | \$ 15,046,598                                 |   | \$ (4,238,559   |

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9 Mortgage Loans, Notes Payable, and Lines of Credit

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

| Lender   | Mortgaged Property   | Maturity Date(1) | September 30, 2006<br>Principal<br>Balance | Interest<br>Rate(2) | December 31, 2005<br>Principal<br>Balance | Interest<br>Rate(2) |   |
|--|--|------------------|--|---------------------|---|---------------------|---|
| <b>Fixed Rate</b>  |  |                  |  |                     |   |                     |   |
| GEMSA  | Hampton Court (7)  | 11/1/2007        | \$ 7,900,000                               | 5.48                | % \$ 7,900,000                            | 5.48                | % |
| Greenwich Capital Financial Products                                 | Parkway Centre II<br>Centerra Southwest<br>Gas Building    | 10/1/2008        | 36,673,883                                 | 5.13                | % 37,306,859                              | 5.13                | % |
| Metropolitan Life Insurance Company                                  | Parkway Centre III (7)                                     | 9/10/2009        | 14,547,968                                 | 4.47                | % 14,813,833                              | 4.47                | % |
| Morgan Stanley Mortgage Capital Inc. (3)                             | Sheridan Center<br>Arrowhead Fountains<br>Kellogg Building | 1/1/2013         | 27,966,251                                 | 7.40                | % 28,360,682                              | 7.40                | % |
| Allstate Life Insurance Company                                      | Camelback 1st(7)   | 9/5/2014         | 15,397,430                                 | 5.82                | % 15,631,631                              | 5.82                | % |
| Allstate Life Insurance Company                                      | Camelback 2nd(7)   | 9/5/2014         | 4,811,697                                  | 5.82                | % 4,884,884                               | 5.82                | % |
| Subtotal   |  |                  | 107,297,229                                | 5.79                | % 108,897,889                             | 5.78                | % |
| <b>Other Notes Payable</b>   |  |                  |  |                     |   |                     |   |
| Lease Capital Corporation  | Phone system   | n/a              |  |                     | 43,747                                    | 11.11               | % |
| Subtotal, excluding held-for-sale properties                         |  |                  | 107,297,229                                | 5.79                | % 108,941,636                             | 5.79                | % |
| <b>Sold Properties</b>   |  |                  |  |                     |   |                     |   |
| Allstate Life Insurance Company                                      | Financial Plaza  | (4)              |  |                     | 23,650,188                                | 5.25                | % |
| Security Life of Denver Insurance Company                            | Keystone Office Park<br>1st                                | (4)              |  |                     | 4,119,506                                 | 8.00                | % |
| Security Life of Denver Insurance Company                            | Keystone Office Park<br>2nd                                | (4)              |  |                     | 462,967                                   | 8.63                | % |
| KeyBank National Association<br>\$10 million Secured Credit Facility | Greenhill Park   | (5)              |  |                     |   |                     |   |
| KeyBank National Association<br>Unsecured Credit Facility            | Unsecured  |                  |  |                     | 29,897,129                                | 6.91                | % |
| Southern Farm Bureau Life Insurance Company                          | Scottsdale Norte   | (6)              |  |                     | 6,507,070                                 | 7.90                | % |
| J.P. Morgan Chase  | Hackberry View 1st   | (6)              |  |                     | 11,287,282                                | 6.57                | % |
| J.P. Morgan Chase  | Hackberry View 2nd   | (6)              |  |                     | 937,796                                   | 8.00                | % |
| Subtotal, sold properties  |  |                  |  |                     | 76,861,938                                | 6.46                | % |
| Total  |  |                  | \$ 107,297,229                             | 5.79                | % \$ 185,803,574                          | 6.09                | % |

(1) The Agreement specifies that the buyer will assume all mortgages, subject to lender approval.

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- (2) Interest only, does not include amortization of deferred financing costs or any fees.
- (3) Morgan Stanley Mortgage Capital, Inc. purchased this loan from Teachers Insurance and Annuity Association of America on August 31, 2006.
- (4) Property was sold in January 2006.
- (5) Property was sold in August 2006.
- (6) Property was sold in September 2006.
- (7) Properties were sold in October 2006. See subsequent event footnote 12.

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The following table details the scheduled maturities of debt outstanding at September 30, 2006 (based on debt outstanding without taking into consideration the disposition of properties and assumption of debt):

|              |                       |
|--------------|-----------------------|
| 2006         | \$ 521,964            |
| 2007         | 10,148,514            |
| 2008         | 36,996,073            |
| 2009         | 14,853,686            |
| 2010         | 1,210,165             |
| Thereafter   | 43,566,827            |
| <b>Total</b> | <b>\$ 107,297,229</b> |

The change in debt during the nine months ended September 30, 2006 consisted of the following:

|   | <b>2006</b>           |
|---|-----------------------|
| Balance at January 1                            | \$ 185,803,574        |
| Additions                                       |                       |
| Repayments, including repayments at disposition | (76,644,300 )         |
| Scheduled principal payments                    | (1,862,045 )          |
| <b>Balance at September 30</b>                  | <b>\$ 107,297,229</b> |

### *Secured Line of Credit*

The Company extinguished its line of credit upon the sale of the Greenhill Park property on August 17, 2006. There were no borrowings on this facility during the nine months ended September 30, 2006.

### *Other*

Our debt instruments generally contain certain covenants common to the type of facility or borrowing, including financial covenants establishing minimum debt service coverage ratios and maximum leverage ratios. We were in compliance with all financial covenants pertaining to our debt instruments at and during the nine months ended September 30, 2006.

### 10 401(k) Plan

The AmeriVest 401(k) Plan ( 401(k) Plan ) was terminated on July 31, 2006. As a result of the 401(k) Plan s final termination, all participants were fully vested in their account balances on the termination date, including an aggregate of 22,040 shares of the Company.

In connection with the termination of the 401(k) Plan, the Company purchased those 22,040 shares on August 16, 2006 at the closing share price on that day of \$4.93 per share. The shares were subsequently cancelled by the Company and are no longer considered issued or outstanding.

### 11 Per Share Information

For the five months ended May 31, 2006, the only adjustment necessary to the basic weighted average common shares outstanding to arrive at the diluted average common shares was the weighted-average effect of the 3,000 unvested restricted shares. The outstanding options were excluded from the diluted weighted-average shares due to their anti-dilutive effect, as the option exercise price exceeds the stock fair value and would result in a reduction to the number of shares outstanding utilizing the treasury stock method. There are no adjustments necessary for the three or nine months ended September 30, 2005 as the Company recognized a net loss and the impact would be anti-dilutive.





During the three months ended September 30, 2006, 22,040 shares were surrendered as part of the termination of the 401(k) plan, and 5,150 shares were vested in the long-term incentive plan. At September 30, 2006, there were 24,114,316 common shares outstanding.

## 12 Subsequent Events

Subsequent to September 30, 2006, the Company has completed the following sales under the Agreement with Koll/PER:

On October 11, 2006, Parkway Centre III, a 152,396 square-foot office property, was sold for \$25.6 million. The Company received cash proceeds of approximately \$10.0 million, after assignment of the first mortgage, closing costs and adjustments.

On October 20, 2006, Hampton Court, a 108,588 square-foot office property, was sold for \$17.0 million. The Company received cash proceeds of approximately \$9.0 million, after assignment of the first mortgage, closing costs and adjustments.

On October 25, 2006, Camelback Lakes, a 203,794 square-foot office property, was sold for \$50.4 million. The Company received cash proceeds of approximately \$28.0 million, after assignment of the first mortgage, closing costs and adjustments.

The net cash proceeds of approximately \$47.0 million from these sales to Koll/PER have been accumulated with other proceeds and made available, subject to the expenses, liabilities and other costs of the Company, for distribution to stockholders under the plan of liquidation approved by its stockholders.

On October 30, 2006, the Board voted to terminate AmeriVest's Deferred Compensation Plan for Directors and Executives, effective as of October 30, 2006. Shares equivalent to the deferred share unit balance in the plan, net of shares withheld for taxes, will be distributed to participants.

On October 30, 2006, the Board declared an initial liquidating cash distribution of \$3.50 per share or approximately \$84.4 million. The distribution will be paid November 16, 2006 to stockholders of record as of November 10, 2006.

On November 3, 2006, the Board voted to terminate AmeriVest's Dividend Reinvestment Plan, effective as of November 3, 2006. Whole shares will be issued directly to participants and fractional shares will be converted to cash.

Also on November 3, 2006, the Board of Directors replaced its existing compensation program for outside directors with the following program. The Board implemented a per-meeting fee of \$2,500 for all meetings commencing with the fourth quarter of 2006 until the company has been dissolved and a liquidating trust formed. In addition, the Board approved a special performance-based aggregate fee of \$10,000 for each independent director, payable \$5,000 immediately, and \$5,000 upon closing of all of the remaining six properties. The Board also approved payment of an additional \$15,000 retainer fee to each independent director upon formation of the liquidating trust, if any, in exchange for such director's willingness to make themselves available to the liquidating trustee or trustees during the term of the liquidating trust.

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

The discussion and analysis of the Company's financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States as to the liquidation basis for the period June 1, 2006 to September 30, 2006 and on the going concern basis for all prior periods. The preparation of these financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The following discussion and analysis of the condensed consolidated net assets in liquidation, changes in net assets in liquidation, financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Form 10-Q and elsewhere.

Forward-Looking Statements

Certain statements in this Form 10-Q that are not historical facts are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the Company's current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which the Company operates. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. Information concerning anticipated asset sales, expected investment balances, expected funding sources, planned investments, forecasted dates and revenue and expense growth assumptions are examples of forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

The Company's operating results depend primarily on income from its properties, which are substantially influenced by supply and demand for such properties, operating expense levels, property level operations and the pace and price at which the Company can develop or dispose of such properties. Capital and credit market conditions, which affect the Company's cost of capital, also influence operating results. See Item 1. Description of Business in the Company's Annual Report on Form 10-K for the period ending December 31, 2005 and Item 1A. of the reports on Form 10-Q for the periods ending September 30, 2006 and June 30, 2006 for a more complete discussion of risk factors that could impact the Company's future financial performance.

Organization, Business, and Plan of Liquidation

As used herein, we, us, our and the Company refer to AmeriVest Properties Inc., a Maryland corporation. We were incorporated in the State of Maryland in 1999. We are a REIT investing in, operating and leasing commercial office buildings primarily to small and medium size tenants. At September 30, 2006, we owned nine properties, which included an aggregate of approximately 1,297,000 rentable square feet located in metropolitan Denver, Dallas and Phoenix. Subsequent to September 30, 2006, we sold three properties with 464,778 square feet located in Dallas and Phoenix. At September 30, 2005, we owned 16 properties, which included an aggregate of approximately 2,451,000 rentable square feet.

On February 9, 2006 our Board of Directors approved a plan of liquidation (the Plan), which was approved by our stockholders at the Annual Meeting of Stockholders on May 24, 2006. On July 17, 2006, the Company entered into a definitive agreement (the Agreement) to sell its entire portfolio of office properties to Koll/PER LLC (Koll/PER), a limited liability company owned by The Koll Company of Newport Beach, California and the Public Employee Retirement System of Idaho (PERSI). The gross purchase price is \$273 million (less a reserve for capital expenditures of approximately \$850,000), which includes an assumption of existing property level debt of approximately \$126 million. Through October 31, 2006, we have closed on the sales of six properties. Closings on the remaining properties will be scheduled as loan assumption approvals are received from the Company's mortgage lenders and other traditional closing activities are completed. There can be no assurance



that the remainder of the transaction will close, or close on the terms described.

Our net assets in liquidation aggregated approximately \$130.4 million or \$5.41 per share on September 30, 2006. This amount represents assets at estimated net realizable values on an undiscounted basis. The amount also includes an estimated net liability for future estimated general and administrative expenses and other costs during the liquidation. As not all of the property sales have closed, these estimates contain potential costs that could change as circumstances dictate. There can be no assurance that these estimated values will be realized, nor if the reserve for future estimated general and administrative expenses is adequate. This amount should not be taken as an indication of the timing or amount of future distributions to be made by the Company. On October 30, 2006 the Board of Directors declared an initial liquidating cash distribution of \$3.50 per share. The distribution will be paid November 16, 2006 to stockholders of record as of November 10, 2006. Given the progress of asset sales to date, and to insure that a liquidating distribution is paid in 2006 to preserve the Company's REIT status for the year, the Board of Directors has elected to make this initial distribution at this time. The timing and amount of additional liquidating distributions (if any), and the final liquidating distribution will depend on the timing and amount of proceeds the Company receives upon the sale of these assets and the extent to which reserves are required.

We have elected to be taxed as a REIT for federal income tax purposes and generally will not be subject to federal income tax if we distribute at least 90% of our taxable income and comply with a number of organizational and operational requirements. Although we expect to continue to qualify as a REIT until our dissolution, no assurance can be given that we will not lose or terminate our status as a REIT.

#### *Factors Which May Influence Future Changes in Net Assets in Liquidation*

##### *Rental Income*

The amount of rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space, to lease currently available space and space available from unscheduled lease terminations at the existing rental rates and the timing of the disposition of the properties. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

##### *Uses of Estimates*

Management has estimated the net realizable value of the properties based on the current Agreement with Koll/PER. These estimates include closing costs, prepayment penalties if our loans are not assumed by Koll/PER, and expenditures for leasing commissions, tenant improvements, and capital expenditures until we sell the properties. As not all of the properties have closed, our estimates for potential disbursements could continue to change as circumstances dictate. Management has also estimated and reserved for estimated future general and administrative expenses and other costs to be incurred during the liquidation period. There can be no assurance that the estimated net realizable values for our properties will be realized, nor that the reserve for future estimated general and administrative expense is adequate.

#### Changes in Net Assets in Liquidation

##### *Three months ended September 30, 2006*

Net assets in liquidation increased \$8,218,241 during the three months ended September 30, 2006. The primary reason for the increase was an increase of \$6,033,702 in our real estate assets, due to a revision of the estimated selling costs and certain provisions which we believed could impact the net realizable value of our real estate assets. Also, assets increased over liabilities \$1,605,642 for the period primarily due to the excess of revenue over expenses. In addition, the estimated net liability for costs during the liquidation period decreased \$578,897 due to excess revenue over expenses of \$1,582,081 for the three months ended September 30, 2006 offset by a change in the estimated net liability for costs during the liquidation period of \$1,003,184 due to a reduction of certain previously estimated costs.

##### *Four months ended September 30, 2006*

Net assets in liquidation increased \$7,794,502 during the four months ended September 30, 2006. The primary reason for the increase was an increase of \$6,033,702 in our real estate assets, due to a revision of the estimated selling costs and certain provisions which we believed could impact the net realizable value of our real

estate assets. Also, assets increased over liabilities \$1,399,778 for the period primarily due to the excess of revenue over expenses. In addition, the estimated net liability for costs during the liquidation period decreased \$361,022 due to excess revenue over expenses of \$1,364,206 for the three months ended September 30, 2006 offset by a change in the estimated net liability for costs during the liquidation period of \$1,003,184 due to a reduction of certain previously estimated costs.

#### Liquidity and Capital Resources

At September 30, 2006, our total assets and net assets in liquidation were approximately \$251.6 million and \$130.4 million, respectively. Our ability to meet our obligations is contingent upon the disposition of our remaining assets in accordance with the Plan. Management estimates that the net proceeds from the sale of assets pursuant to the Plan will be adequate to pay our obligations; however, we cannot provide any assurance that the remaining properties under the agreement with Koll/PER will close on the terms previously described or on any terms. As such, it is not possible to predict the aggregate amount or timing of future distributions subsequent to our announced November 16, 2006 initial liquidating distribution to stockholders and no assurance can be given that the eventual amount of distributions to be paid will equal or exceed the estimated net assets in liquidation included in the financial statements.

#### *Current Sources of Capital and Liquidity*

We anticipate, but can not assure, that our cash flow from operations and sales of property will be sufficient during the liquidation period to fund our cash needs for payment of expenses, capital expenditures, recurring debt service payments and repayment of debt maturities.

The Plan gives our Board of Directors the power to sell any and all of our assets without further approval by our stockholders and provides that liquidating distributions be made to our stockholders as determined at the discretion of our Board of Directors. On October 30, 2006 the Board of Directors declared an initial liquidating cash distribution of \$3.50 per share. The distribution will be paid November 16, 2006 to stockholders of record as of November 10, 2006. The timing and amount of any subsequent liquidating distributions and the final liquidating distribution will depend on the timing and amount of proceeds the Company will receive upon the sale of these assets and the extent to which reserves for current or future liabilities are required.

#### *Other Liquidity Needs*

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Effective March 9, 2005, we suspended regular quarterly distributions. On October 30, 2006 our Board of Directors declared a liquidating cash distribution of \$3.50 per share. Future liquidating distributions from proceeds received from the sales of assets will be determined at the discretion of our Board of Directors. We have historically distributed amounts in excess of our taxable income resulting in a return of capital to our stockholders. We anticipate that we will meet our REIT requirements for 2006.

We believe that we will have sufficient capital resources to satisfy our liquidity needs during the liquidation period. As of September 30, 2006 we estimate that we will have \$5.65 million of commitments and expenditures during the liquidation period comprised of the following: \$2.5 million of estimated costs to operate the liquidating trust until dissolution, \$2.0 million for estimated severance costs, \$1.3 million for estimated additional costs, offset by estimated excess revenue over operating costs of \$150,000. However, there can be no assurance that we will not exceed the amounts of these estimated expenditures. A material adverse change in the net cash provided by operating activities or net proceeds expected from the liquidation of real estate assets may affect our ability to fund these items.

Liquidating distributions will be determined by our Board of Directors in their sole discretion and are dependent on a number of factors, including the amount of funds available for distribution, our financial condition, our capital expenditures, the annual distribution required to maintain REIT status under the Internal Revenue Code of 1986, as amended, and other factors the Board of Directors may deem relevant. Distributions in the liquidation should first reduce the basis of a U.S. stockholder's shares of common stock, with any excess constituting a capital

gain if such U.S. stockholder holds his shares of common stock as a capital asset. If the sum of all liquidating distributions is less than a U.S. stockholder's basis in his shares of common stock, the difference will constitute a capital loss that is recognized at the time such U.S. stockholder receives his final liquidating distribution, which includes the transfer of assets to a liquidating trust.

The stated range of stockholder distributions are estimates only and actual results may be higher or lower than estimated. The potential for variance on either end of the range could occur for reasons including, but not limited to: (i) unanticipated costs which could reduce net asset values actually realized; (ii) if we wind up our business significantly faster than anticipated, some of the anticipated costs may not be necessary and net liquidation proceeds could be higher; (iii) if we complete all loan assumptions as planned and incur no prepayment penalties or other costs, net liquidation proceeds could be higher; (iv) a delay in our liquidation could result in higher than anticipated costs and net liquidation proceeds could be lower; and (v) circumstances may change and the actual net proceeds realized from the sale of some of the assets might be less, or significantly less, than currently estimated.

#### *Future Sources of Capital*

The Company believes proceeds from the sale of the six properties under contract will be adequate to fund anticipated capital needs through the anticipated distribution dates. As of October 31, 2006 we had approximately \$96.0 million cash on hand, which includes \$2.0 million of earnest money from Koll/PER, prior to the distribution to be paid on November 16, 2006 of approximately \$84.4 million.

#### Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. Set forth below is a summary of the accounting policies management believes are critical to the preparation of the condensed consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company's accounting policies included in Note 2 to the consolidated financial statements in the Company's 2005 Annual Report on Form 10-K.

#### *Liquidation Basis of Accounting*

As a result of the approval of the Plan by our stockholders, we adopted the liquidation basis of accounting as of June 1, 2006 and for all subsequent periods. Accordingly, all assets have been adjusted to their estimated fair value on an undiscounted basis. Liabilities, including estimated costs associated with implementing the Plan, have been adjusted to their estimated settlement amounts. The estimate of the valuation of real estate held for sale is based on current contracts, estimates and other indications of sales value net of estimated selling costs. Actual values realized for assets and settlement of liabilities may differ materially from the amounts estimated. Estimated future cash flows from property operations were made based on the anticipated sales dates of the assets. Due to the uncertainty in the timing of the anticipated sales dates and the cash flows there from, results of operations may differ materially from amounts estimated. These amounts are presented in the accompanying statement of net assets in liquidation. The net assets represent the estimated liquidation value of our assets available to our stockholders upon liquidation. The actual settlement amounts realized for assets and settlement of liabilities may differ materially, perhaps in adverse ways, from the amounts estimated.

#### *Investment in Real Estate*

Prior to June 1, 2006, upon acquisition, the purchase price of a property is allocated to land, building and improvements and other intangible assets and associated liabilities as required by SFAS No. 141 *Business Combinations*. (SFAS 141) The allocation to land was based on an estimate of its fair value based on all available information including appraisals. The allocation to other intangible assets represented the value associated with the in-place leases, including leasing commission, legal and other related costs. Also required by SFAS 141, is the creation of an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of acquisition. This asset or liability was amortized over the life of the related in-place leases as an adjustment to revenue.

Investment in real estate is stated at cost, unless adjusted for impairment. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

| Description   | Estimated Useful Lives                                  |
|---|---|
| Land  | Not depreciated   |
| Buildings and improvements  | 20 to 40 years  |
| Furniture, fixtures and equipment   | 5 to 7 years  |
| Tenant improvements, tenant leasing commissions and other intangible assets | Lesser of term of related lease or useful life of asset |

Maintenance and repairs are expensed as incurred and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation and/or amortization are removed from the accounts and the resulting gain or loss is reflected in operations in the period in which such sale or retirement occurs. Allocating the purchase price of a property to the different components of investment in real estate, determining whether expenditures meet the criteria for capitalization and assigning depreciable lives is considered to be critical because it requires management to exercise significant judgment.

#### *Valuation of Real Estate Assets*

Under going concern accounting, long-lived assets to be held and used are carried at cost, unless adjusted for impairment, and evaluated for impairment when events or changes in circumstances indicate such an evaluation is warranted. We also evaluate assets for potential impairment when we deem them to be held-for-sale. Valuation of real estate is considered a critical accounting estimate because the evaluation of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate. Furthermore, decisions regarding when a property should be classified as held-for-sale under SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires significant management judgment. There are many phases to the disposition process ranging from the initial market research to being under contract with non-refundable earnest money. Deciding when management is committed to selling an asset is therefore highly subjective.

When determining if there is an indication of impairment, we estimate the asset's rental revenues less operating expenses over the anticipated holding period on an undiscounted cash flow basis and compare this amount to its carrying value. Estimating the expected rental revenues less operating expenses and holding period requires significant management judgment. If it is determined that there is an indication of impairment for assets to be held and used, or if an asset is deemed to be held-for-sale, we then determine the fair value of the asset.

The real estate industry uses capitalization rates as the primary measure of fair value. Specifically, annual rental revenues less operating expenses for a property is divided by an estimated capitalization rate to determine the fair value of the property. Determining the appropriate capitalization rate requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate up or down due to a variety of factors in the overall economy or within local markets. If the actual capitalization rate for a property is significantly different from our estimated rate, the impairment evaluation for an individual asset could be materially affected.

#### *Revenue Recognition*

Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease. Prior to June 1, 2006, rental revenue was recorded for the full term of each lease on a straight-line basis. Accordingly, the Company recorded a receivable from tenants for rents that it expected to collect over the remaining lease term as deferred rents receivable. When the Company acquired a property, the term of the existing leases was considered to commence as of the acquisition date for the purposes of this calculation. Upon the adoption of the liquidation basis of accounting, all deferred rental revenue was written off.

#### *Income Taxes*

The Company operates in a manner intended to enable it to continue to qualify as a REIT under Sections 856-860 of the Code. With respect to a REIT that is liquidating within 24 months of adopting a plan of liquidation a dividend paid deduction is allowed to the extent the distribution is attributable to accumulated earnings and profits or,





to the extent any distribution within such period does not exceed earnings and profits (computed without regard to capital losses) for the year of distribution. The Company intends to distribute its earnings and profit. Therefore, no provision for Federal income taxes is required. If the Company fails to distribute the required amount of income to our stockholders, or fails to meet other REIT requirements, we may fail to qualify as a REIT and substantial adverse tax consequences may result.

Uses of Capital, Contractual Commitments and Off-Balance Sheet Arrangements

The following table details the contractual obligations at September 30, 2006 (based on debt outstanding without taking into consideration the disposition of properties and assumption of debt):

| For the years ended December 31, | Scheduled Debt Maturities (1) | Interest Payments on Secured Mortgage Loans(1) | Tenant Improvements, Capital Expenditures and Leasing Commissions | Total          |
|----------------------------------|-------------------------------|--|---|----------------|
| 2006                             | \$ 521,964                    | \$ 1,573,142                                   | \$ 1,828,300  | \$ 3,923,406   |
| 2007                             | 10,148,514                    | 6,710,792                                      |   | 16,859,306     |
| 2008                             | 36,996,073                    | 5,770,238                                      |   | 42,766,311     |
| 2009                             | 14,853,686                    | 4,350,939                                      |   | 19,204,625     |
| 2010                             | 1,210,165                     | 4,303,994                                      |   | 5,514,159      |
| Thereafter                       | 43,566,827                    | 23,151,159                                     |   | 66,717,986     |
| Total                            | \$ 107,297,229                | \$ 45,860,264                                  | \$ 1,828,300  | \$ 154,985,793 |

(1) Includes payments for Parkway Centre III, Hampton Court, and Camelback Lakes which were sold subsequent to September 30, 2006.

*Interest Rate Information*

As of September 30, 2006, all of our outstanding mortgage debt are fixed rate loans with a weighted-average interest rate of 5.79%.

*Debt Covenants*

Certain of the Company's debt instruments contain covenants common to that type of facility or borrowing, including financial covenants establishing minimum debt service coverage and maximum leverage ratios. The Company was in compliance with all financial covenants pertaining to its debt instruments at and during the three and nine months ended September 30, 2006.

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

Our future earnings, cash flows and fair values relevant to financial instruments depend upon prevalent market rates for those financial instruments. Market risk is the risk of loss from adverse changes in market prices and interest rates. We manage our market risk by matching projected cash inflows from operating, investing and financing activities with projected cash outflows to fund debt service, capital expenditures, dividends and other cash requirements. At September 30, 2006, all of our outstanding debt obligations have fixed interest rates that limit the risk of fluctuating interest rates. See Item 7a. Quantitative and Qualitative Disclosure about Market Risk in our 2005 Annual Report on Form 10-K for detailed information about the qualitative and quantitative disclosures about our market risk.

**Item 4. Controls and Procedures**

The Company carried out an evaluation as of September 30, 2006, under the supervision and with participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commissions rules and forms. Subsequent to September 30, 2006, there have been



no significant changes in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

No changes.

### Item 1A. Risk Factors

As of October 31, 2006 the Company had approximately \$96.0 million of cash on hand. The Company maintains cash accounts at three financial institutions and cash is generally invested in investment-grade short-term instruments and the amount of credit exposure to any one commercial issuer is limited. The Company periodically evaluates the credit worthiness of these financial institutions, and maintains cash accounts only in large, high-quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. As of September 30, 2006 we had cash accounts in excess of federally insured amounts. We believe this risk is not significant.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Period              | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---------------------|----------------------------------|------------------------------|--|--|
| August 16, 2006 (1) | 22,040                           | \$ 4.93                      | None   | N/A  |

(1) Due to the July 31, 2006 termination of the 401(k) Plan, on August 16, 2006, the Company purchased the 22,040 shares of the Company's common stock that were held in the 401(k) Plan at the closing price on that day of \$4.93 per share. These shares were subsequently cancelled and are no longer considered issued or outstanding.

### Item 3. Defaults upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

Since November 21, 2004, when the Board approved the engagement of a national investment banking firm to explore strategic alternatives, the Board and the five committees of the Board have met a total of 73 times, including 34 full Board meetings. Since the Company's shareholders approved the Company's Plan of Liquidation on May 24, 2006, at which time each of the Company's three current directors became a member of each standing Board committee, the Board and committees have met a total of 14 times, including 9 full Board meetings. In addition, during that period, each director has spent considerable time with management reviewing various issues related to the liquidation and winding up of the Company. In prior years, barring extraordinary events, the Board generally met once a quarter and the committees generally met no more frequently than quarterly.

Based on the time expended to date and the anticipated time commitment anticipated through the completion of the liquidation, together with the fact that the Board's compensation plan had not been adjusted since January 2005, on November 3, 2006, the Board of Directors replaced its existing compensation program for outside directors with the following program. The Board implemented a per-meeting fee of \$2,500 for all meetings commencing with the fourth quarter of 2006 until the Company has been dissolved and a liquidating trust formed. In addition, the Board approved a special performance-based aggregate fee of \$10,000 for each independent director, payable \$5,000 immediately, and \$5,000 upon closing of all of the remaining six properties. The Board also approved payment of an additional \$15,000 retainer fee to each independent

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director upon formation of the liquidating trust, if any, in exchange for such director's willingness to make themselves available to the liquidating trustee or trustees during the term of the liquidating trust. There can be no assurance that the sales of the remaining properties will close under AmeriVest's purchase and sale agreement with Koll/PER, LLC, or on any terms, that a second liquidating distribution will be made or that AmeriVest will transfer its assets to a liquidating trust.

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Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
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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.

AMERIVEST PROPERTIES INC.

November 7, 2006

By: /s/ Charles K. Knight  
Charles K. Knight  
Chief Executive Officer

By: /s/ Sheri D. Henry  
Sheri D. Henry  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

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