

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

BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
May 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005  
-----

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number: 1-9496

BNP RESIDENTIAL PROPERTIES, INC.  
(Exact name of Registrant as specified in its charter)

Maryland  
-----  
State or other jurisdiction of  
incorporation or organization

56-1574675  
-----  
(I.R.S. Employer  
Identification No.)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer  
(as defined in Rule 12b-2 of the Exchange Act). Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's  
classes of common stock, as of May 2, 2005 (the latest practicable date).

Common Stock, \$.01 par value ----- (Class)	9,232,501 ----- (Number of shares)
---	--

TABLE OF CONTENTS

Item No.		Page No.
	PART I - Financial Information (Unaudited)	
1	Financial Statements	3
2	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
3	Quantitative and Qualitative Disclosures About Market Risk	30
4	Controls and Procedures	31
	PART II - Other Information	
2	Changes in Securities and Use of Proceeds	31
6	Exhibits	31
	Signatures	32

PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

-----  
 Consolidated Balance Sheets - Unaudited  
 (all amounts in thousands)

	March 31 2005	Decem 2
	-----	
Assets		
Real estate investments at cost:		
Apartment properties	\$489,729	
Restaurant properties	37,405	
	-----	
	527,134	
Less accumulated depreciation	(76,155)	
	-----	
	450,979	
Cash and cash equivalents	2,583	
Prepaid expenses and other assets	7,513	
Intangible related to acquisition of management operations	1,115	
Deferred financing costs, net of accumulated amortization	2,690	
	-----	

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

Total assets	\$464,880
<hr/>	
Liabilities and Shareholders' Equity	
Deed of trust and other notes payable	\$373,269
Accounts payable and accrued expenses	3,347
Accrued interest on notes payable	1,660
Consideration due for acquisitions	1,000
Deferred revenue and security deposits	1,940
	<hr/>
Total liabilities	381,216
Minority interest in consolidated limited partnerships	288
Minority interest in operating partnership	20,258
Shareholders' equity:	
Preferred stock, \$.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 909,090 at March 31, 2005, and December 31, 2004	10,000
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 9,232,501 at March 31, 2005, 8,652,740 at December 31, 2004	92
Additional paid-in capital	111,817
Dividend distributions in excess of net income	(58,790)
	<hr/>
Total shareholders' equity	63,120
	<hr/>
Total liabilities and shareholders' equity	\$464,880
<hr/>	

See accompanying notes

3

BNP RESIDENTIAL PROPERTIES, INC.

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

	Three months end March 31 2005
<hr/>	
Revenues	
Apartment rental income	\$ 14,092
Restaurant rental income	957
Management fee income	115
Interest and other income	225
	<hr/>
	15,390
Expenses	
Apartment operations	5,443
Apartment administration	673
Corporate administration	885
Interest	4,574

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

Penalties paid at debt refinance	516
Depreciation	3,522
Amortization of	
deferred loan costs	107
Write-off of unamortized	
loan costs at debt refinance	160
Deficit distributions to	
minority partners	6,821
	-----
	22,701
	-----
(Loss) income before	
minority interest	(7,311)
Minority interest in consolidated	
limited partnerships	(62)
Minority interest in	
Operating Partnership	(1,292)
	-----
Net (loss) income	(5,957)
Cumulative preferred dividend	250
	-----
(Loss) income attributable to common	
shareholders	\$ (6,207)
	=====
Earnings per common share - basic:	
Net (loss) income	\$ (0.66)
(Loss) income attributable to	
common shareholders	(0.69)
Earnings per common share - diluted:	
Net (loss) income	\$ (0.67)
(Loss) income attributable to	
common shareholders	(0.69)
Dividends declared	\$ 0.25
Weighted average common shares	
outstanding	8,983

See accompanying notes

4

BNP RESIDENTIAL PROPERTIES, INC.

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

Preferred Stock	Common Stock	Additional paid-in	Divid distribu in exce
-----------------	--------------	-----------------------	------------------------------

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

	Shares	Amount	Shares	Amount	capital	net in
	-----	-----	-----	-----	-----	-----
Balance December 31, 2004	909	\$ 10,000	8,653	\$ 87	\$ 103,221	\$ (50
Common stock issued	-	-	580	6	8,596	
Dividends paid - preferred	-	-	-	-	-	(2
Dividends paid - common	-	-	-	-	-	(5
Net loss	-	-	-	-	-	(5
	-----	-----	-----	-----	-----	-----
Balance March 31, 2005	909	\$ 10,000	9,233	\$ 92	\$ 111,817	\$ (58
	=====	=====	=====	=====	=====	=====

See accompanying notes

5

BNP RESIDENTIAL PROPERTIES, INC.

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

	Three months end March 31 2005
	-----
Operating activities:	
Apartment rental receipts, net	\$ 13,984
Restaurant rental receipts	957
Management fee receipts	144
Interest and other income receipts	243
Operating and administrative expense payments	(8,074)
Interest payments	(4,577)
	-----
Net cash provided by operating activities	2,677
Investing activities:	
Acquisitions of apartment properties	(71)
Acquisition of Boddie Investment Company, net of cash included in accounts of consolidated limited partnerships	193
Additions to apartment properties, net	(1,290)
Deposits for pending investing transactions	(648)
Net release (funding) of lender reserves	(31)
	-----
Net cash used in investing activities	(1,847)
Financing activities:	
Net proceeds from issuance of common stock	888
Distributions to minority partners in consolidated limited partnerships	(6,821)
Distributions to operating partnership minority unitholders	(466)
Dividends paid to preferred shareholder	(250)
Dividends paid to common shareholders	(2,272)
Proceeds from notes payable	33,900
Principal payments on notes payable	(22,468)
Deposits for pending financing transactions	(687)

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

Payment of deferred financing costs	(587)
Net cash provided by (used in) financing activities	1,236
Net increase in cash and cash equivalents	2,065
Cash and cash equivalents at beginning of period	517
Cash and cash equivalents at end of period	\$ 2,583

6

BNP RESIDENTIAL PROPERTIES, INC.

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

	Three months end March 31 2005
Reconciliation of net (loss) income to net cash provided by operating activities:	
Net (loss) income	\$ (5,957)
Equity in income of unconsolidated limited partnerships	-
Deficit distributions to minority partners in consolidated limited partnerships	6,821
Write off of loan costs at debt refinancing	160
Minority interest in consolidated limited partnerships	(62)
Minority interest in operating partnership	(1,292)
Depreciation and amortization of deferred loan costs	3,629
Amortization of deferred interest defeasance	(31)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(1,846)
Accounts payable and accrued expenses	1,359
Deferred revenue, prepaid rent and security deposits	(104)
Net cash provided by operating activities	\$ 2,677

See accompanying notes

7

BNP RESIDENTIAL PROPERTIES, INC.

Notes to Consolidated Financial Statements - March 31, 2005  
(Unaudited)

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

### Note 1. Interim financial statements

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

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

### Note 2. Basis of presentation

The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "operating partnership"). The company is the general partner and owns a majority interest in the operating partnership.

Effective January 26, 2005, in connection with an acquisition on that date, the consolidated financial statements also include the accounts of real estate limited partnerships (the "limited partnerships") that the operating partnership controls which are not considered variable interest entities ("VIEs"), as well as all VIEs for which the operating partnership is the primary beneficiary. The assets of consolidated limited partnerships controlled by the operating partnership generally are not available to pay creditors of the company or the operating partnership.

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

#### Accounting for VIEs

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

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

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

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

### Accounting for general partner interests in limited partnerships

As managing general partner in real estate limited partnerships, we have the ability to exercise significant influence over operating and financial policies. This influence is evident in the terms of the respective partnership agreements. However, we do not "control" the respective limited partnerships if the limited partners have significant rights, such as the right to replace the general partner and the right to approve the sale or refinancing of the assets of the respective partnership in accordance with the partnership agreement. In acting as the general partner in these limited partnerships, we are committed to providing additional levels of funding to meet partnership operating deficits as may be needed.

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

### Acquisition of interests in limited partnerships

Effective January 26, 2005, we acquired Boddie Investment Company ("BIC") in exchange for shares of our common stock valued at \$8.2 million. As a result of this acquisition, in addition to other significant assets, we acquired certain economic interests in the following limited partnerships:

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

Prior to this acquisition, we managed, on a fee basis, the properties owned by these limited partnerships. Following our acquisition of BIC, the operating partnership acts as the managing general partner of these limited partnerships and will continue to manage the properties. These limited partnerships are primarily funded with financing from third party lenders, which is secured by first deed of trust loans on the rental properties of the partnerships. The creditors of the limited partnerships generally do not have recourse to the operating partnership.

We determined that the Marina Shores Associates One Limited Partnership ("Marina Shores Partnership") is not a VIE. However, under the terms of the partnership agreement for the Marina Shores Partnership, the general partner controls the

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

activities of partnership; we have therefore included the accounts of this partnership in our consolidated financial statements effective January 26, 2005. The initial inclusion of the Marina Shores Partnership in our consolidated financial statements resulted in an increase in real estate investments of \$26.3 million, an increase in net operating assets of \$1.0 million and an increase in deed of trust notes payable of approximately \$21.4 million. Our initial net investment in this limited partnership was \$5.9 million.

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

We determined that The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages - Phase 5 Partnership") is not a VIE. Under the terms of the partnership agreement the Villages - Phase 5 Partnership, the limited partners have certain voting rights that preclude control by the general partner. We have therefore accounted for our investment in this partnership by applying the equity method. Our initial investment in the Villages - Phase 5 Partnership was approximately \$7,000, and we include this investment in "other assets" on our balance sheet.

We reflect the unaffiliated partners' interests in the Marina Shores Partnership and The Villages Partnership as minority interest in consolidated limited partnerships. Minority interest in consolidated limited partnerships represents the minority partners' share of the underlying net assets of these consolidated limited partnerships. When these consolidated limited partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we record a charge equal to the amount of such excess distribution, even though there is no economic effect or cost. We report this charge in the consolidated statements of operations as deficit distributions to minority partners. During the first quarter of 2005 we recorded charges for deficit distributions to the minority partner in the Marina Shores Partnership totaling \$6.8 million.

We allocate proportional income and losses of the consolidated limited partnerships to minority partners to the extent of the carrying amount of the minority interest. We record a charge when losses attributable to the limited partners of a consolidated limited partnership exceed the carrying amount of the minority interest, even though there is no economic effect or cost. During the first quarter of 2005 we recorded charges for consolidated limited partnership losses, resulting primarily from depreciation and costs related to refinance of the Marina Shores Partnership's first deed of trust loan, of approximately \$621,000 that were not allocated to the minority partner in Marina Shores Partnership because the losses exceeded the carrying amount of the minority interest.

### Stock-based compensation

The company has one employee Stock Option and Incentive Plan in place. As allowed by FAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and FAS 123

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

"Accounting for Stock-Based Compensation," we account for this plan using the intrinsic value method under the recognition and measurement principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. All outstanding options were fully vested prior to the end of 2004. If we had applied the fair value recognition provisions of FAS 123 to this significant estimate for stock-based employee compensation, the effect would have been to reduce net income as reported by less than \$200 for the three months ended March 31, 2004, with no impact on net income as reported for the three months ended March 31, 2005, and no impact on basic and diluted earnings per share amounts as reported.

In December 2004 the Financial Accounting Standards Board issued FAS 123 (revised 2004), "Share Based Payment," ("FAS 123(R)") which is a revision of FAS 123. FAS 123(R) supersedes APB Opinion 25, and amends FAS 95, "Statement of Cash Flows." Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative. FAS 123(R) must be adopted no later than January 1, 2006, and we expect to adopt FAS 123(R) as of that date.

### Note 3. Apartment property acquisitions

During the first quarter of 2005, we completed the acquisition of a portfolio of four apartment properties from entities associated with Grover F. Shugart, Jr. and/or Brian D. Shugart, which we call the "Shugart Parties." The four apartment communities contain an aggregate of 1,086 apartment units. The aggregate purchase price for the properties totaled \$52.1million (including approximately \$0.3 million in net operating assets acquired), paid by the assumption or refinancing of \$42.8 million of debt on the properties and issuance of \$9.3 million in operating partnership units with an imputed value of \$13.50 per unit. Under the terms of the exchange agreements, we issued 689,000 operating partnership units at closing, and will issue an additional 74,000 deferred units in March 2006. The preliminary allocation of the purchase price includes the following significant components (all amounts in thousands):

Property	Apt. Units	Contract Price	Debt Assumed	Valu Opera Partner
Canterbury Apartments	630	\$ 25,750	\$ 22,992	\$
Laurel Springs Apartments	240	14,610	11,320	
Laurel Springs II Apartments	96	7,090	5,850	
Salem Ridge Apartments	120	4,360	2,610	

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

### Note 4. Financing transactions

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

- o \$21.5 million balance, fixed-rate note payable, secured by a deed of trust and assignment of rents of Canterbury Apartments. This loan provides for interest at 5.4% (5.48% effective rate), payable in monthly installments of principal and interest of \$124,000 through July 2013, with a balloon payment of \$18.4 million at maturity in August 2013.
- o \$1.5 million variable rate unsecured note related to Canterbury Apartments, which we immediately retired.
- o \$11.3 million balance, fixed-rate note payable, secured by a deed of trust and assignment of rents of Laurel Springs Apartments. This loan provides for interest at 4.91% (4.98% effective rate), payable in monthly installments of principal and interest of \$62,000 through June 2013, with a balloon payment of \$9.6 million at maturity in July 2013.
- o \$5.9 million variable rate note payable, secured by a deed of trust and assignment of rents of Laurel Springs II Apartments. This loan provides for interest at 30-day LIBOR plus 1.9%, payable monthly. Beginning in June 2005, principal payments of \$7,000 will be due monthly in addition to interest, with a balloon payment of \$5.8 million at maturity in June 2006. At our option, we may extend the loan maturity to June 2008.
- o \$2.6 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Salem Ridge Apartments. This loan provides for interest at 6.76%, payable in monthly installments of \$15,000 through September 2008, with principal due in full at that date.

Shortly after we acquired BIC (see Note 2 above), we completed the refinancing of debt related to the Marina Shores Partnership. The Marina Shores Partnership issued a \$33.9 million fixed-rate note payable, secured by a deed of trust and assignment of rents of Marina Shores Apartments. This loan provides for interest at 5.075% (5.145% effective rate), payable in monthly installments of principal and interest of \$184,000 through January 2015, with a balloon payment of \$28.2 million in February 2015. The Partnership first applied proceeds of this loan to retire the existing \$20.7 million deed of trust loan balance along with \$1.2 million interest and prepayment penalties, then distributed \$6.8 million to the minority limited partner and \$3.7 million to us.

Note 5. Shareholders' equity

In January 2005, we issued 508,578 shares of our common stock, valued at \$8.2 million, in conjunction with the BIC acquisition (see Note 2 above). As part of the acquisition, BIC surrendered, and we cancelled, 72,399 shares of our common stock, valued at \$1.2 million.

In February 2005, we issued 12,748 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of \$0.2 million.

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

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

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

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

12

	Three months ended March 31	
	2005	2004
	-----	-----
Numerators:		
Numerator for basic earnings per share -		
Net (loss) income	\$ (5,957)	\$ 373
Cumulative preferred dividend	(250)	(250)
	-----	-----
(Loss) income attributable to common shareholders	\$ (6,207)	\$ 123
	=====	=====
Numerator for diluted earnings per share -		
Net (loss) income (1)	\$ (7,249)	\$ 408
Cumulative preferred dividend	(250)	(250)
	-----	-----
(Loss) income attributable to common shareholders (1)	\$ (7,499)	\$ 158
	=====	=====
Denominators:		
Denominator for basic earnings per share -		
weighted average common shares outstanding	8,983	6,406
Effect of dilutive securities:		
Convertible Operating Partnership units	1,870	1,841
Stock options (2)	-	15
	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	10,853	8,262
	=====	=====

- (1) Assumes conversion of operating partnership units to common shares; minority interest in operating partnership income has been eliminated.
- (2) We excluded options to purchase 60,000 shares of common stock at \$12.25, 120,000 shares of common stock at \$13.125, 60,000 shares of common stock at \$11.25, and 30,000 shares of common stock at \$9.25 from the calculation of diluted earnings per share for the three months ended March 31, 2005 because inclusion of these options would serve to reduce the net loss per share. We excluded options to purchase 140,000 shares of common stock at \$12.50 and 120,000 shares of common stock at \$13.125 from the calculation of diluted earnings per share for the three months ended March 31, 2004; the exercise price of these options was greater than the average market price of the common shares for those periods, and the effect would be anti-dilutive.

Note 6. Subsequent events

The Board of Directors declared a regular quarterly dividend of \$0.25 per common share on April 21, 2005, payable on May 16, 2005, to shareholders of record as of May 2, 2005. The Board of

Directors also authorized the payment of dividends totaling \$250,000 to the Series B Preferred shareholder.

Effective April 21, 2005, we acquired Waverly Place Apartments, located in North Charleston, South Carolina, for a contract price of \$13.1 million, paid in cash. In conjunction with this acquisition, we issued a \$10.2 million note payable at a fixed rate of 5.31% for a 10-year term. The remainder was funded by a draw on our line of credit.

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

This Quarterly Report contains forward-looking statements within the meaning of federal securities law. You can identify such statements by the use of forward-looking terminology, such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information.

Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve our plans, intentions or expectations. When you consider such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- o Our markets could suffer unexpected increases in the development of apartment, other rental or competitive housing alternatives;
- o our markets could suffer unexpected declines in economic growth or an increase in unemployment rates;
- o general economic conditions could cause the financial condition of a large number of our tenants to deteriorate;
- o we may not be able to lease or re-lease apartments quickly or on as favorable terms as under existing leases;
- o revenues from our third-party apartment property management activities could decline, or we could incur unexpected costs in performing these activities;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates could cause our debt service costs to exceed expectations;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose the services of key executive officers.

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

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

You should read the discussion in conjunction with the financial statements and notes thereto included in this Quarterly Report and our Annual Report on Form 10-K.

### Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of March 31, 2005, we owned and managed 31 apartment communities containing 7,912 units, including three communities containing 713 units for which we are the general partner. In addition to our apartment communities, we own 40 properties that we lease on a triple-net basis to a restaurant operator.

15

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the sole general partner and owns a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the operating partnership. We refer to the limited partners of the operating partnership as minority unitholders or as the minority interest.

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

### Results of Operations

#### Summary

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

Effective March 31, 2005, we acquired a portfolio of four apartment communities. The activities of these owned properties will be included in our consolidated financial statements going forward; however, our operating results for the first quarter of 2005 do not include any apartment revenues or operations expense for these properties.

Overall, apartment property operating results for the first quarter were in line with our expectations. During the first quarter apartment property operations continued to show improvement with a 1.9% increase in same-unit apartment revenue resulting from a 2.2% increase in average monthly revenue per occupied unit offset by a slight decline in average occupancy. At the same time, property operations expenses for these same units increased by only 0.9%. As we enter the second quarter, we believe are well positioned to take advantage of what we deem to be improving apartment markets.

We believe the BIC acquisition (the acquisition of the general partner interest in three limited partnerships in January 2005) was a good transaction

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

that will provide substantial economic benefit to us. However, the accounting for this transaction is very complex, and generally accepted accounting principles ("GAAP") require certain entries that make it extremely difficult to understand the accounting for the transaction and its impact on the company's financial statements. Primarily as a result of a \$6.8 million charge for a deficit distribution to a minority partner (which had no economic effect or cost to us) we are reporting a net loss attributable to common shareholders for the first quarter of \$6.2 million or \$0.69 per share as compared to net income of \$123,000 or \$0.02 per share for the first quarter of 2004.

Funds from operations totaled \$3.3 million in the first quarter of 2005, a 23.0% increase compared to the first quarter of 2004. This comparison reflects the positive impact of apartment additions and the improvement in apartment operating results.

### Revenues

Total revenues in the first quarter of 2005 were \$15.4 million, an increase of 37.0% compared to the first quarter of 2004. This increase is primarily attributable to increases in apartment rental income.

16

Apartment rental income totaled \$14.1 million in the first quarter of 2005, an increase of \$4.0 million, or 40.2%, compared to the first quarter of 2004. This increase is attributable to five apartment acquisitions in 2004, which contributed \$2.7 million to our first quarter apartment rental income in 2005. In addition, two apartment communities that we consolidate effective January 26, 2005, contributed \$1.2 million to this increase.

On a "same-units" basis (the 20 apartment communities that we owned as of January 1, 2004), apartment rental income increased by 1.9% in the first quarter of 2005 compared to 2004. This increase reflects a 2.2% increase in average revenue per occupied unit, somewhat offset by a slight decline in average occupancy. For these apartment communities, average economic occupancy was 94.6% for the first quarter of 2005, compared to 94.9% for the first quarter of 2004. Average revenue per occupied unit was \$743 for the first quarter of 2005, compared to \$727 for the first quarter of 2004.

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

	Number of apartment units -----	Average economic occupancy -----	Three months ended March 31, 2005 Average monthly revenue per occupied unit -----
Owned apartment communities:			
Abbington Place	360	93.0%	\$ 786
Allerton Place	228	94.7%	794
Barrington Place	348	92.3%	763
Brookford Place	108	97.6%	682
Canterbury(2)	630	-	-
Carriage Club(1)	268	94.5%	741
Chason Ridge	252	92.4%	782
Fairington(1)	250	96.6%	715

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

The Harrington	288	95.0%	752
Harris Hill	184	96.8%	634
Latitudes	448	96.9%	964
Laurel Springs(2)	336	-	-
Madison Hall	128	94.4%	602
Marina Shores Waterfront	290	94.0%	794
Oakbrook	162	94.2%	719
Oak Hollow	461	95.3%	608
Paces Commons	336	96.1%	649
Paces Village	198	95.4%	671
Pepperstone	108	98.3%	684
Salem Ridge(2)	120	-	-
Savannah Place	172	95.4%	723
Savannah Shores(1)	198	92.2%	795
Bridges at Southpoint(1)	192	96.0%	699
Summerlyn Place	140	92.5%	809
The Place	144	94.9%	570
Waterford Place	240	91.4%	916
Woods Edge	264	94.1%	679

17

		Three months ended March 31, 2005	
	Number of apartment units	Average economic occupancy	Average monthly revenue per occupied unit
	-----	-----	-----
Bridges at Wind River(1)	346	90.7%	787
All apartments(2)			
- 2005	6,113	94.4%	745
- 2004	4,859	94.9%	727
Same units(1,2)	4,859		
- 2005		94.6%	743
- 2004		94.9%	727
Consolidated limited partnerships:			
Marina Shores(3)	392	94.1%	1,142
Villages of Chapel Hill(3)	264	95.9%	683
Unconsolidated limited partnerships:			
Villages - Phase 5(4)	57	98.3%	782

- (1) We acquired Bridges at Wind River in May 2004, Carriage Club in late June 2004, Savannah Shores in July 2004, Fairington in August 2004 and Bridges at Southpoint in September 2004. We have excluded these communities from same-units calculations for 2005.
- (2) We acquired Canterbury, Laurel Springs, and Salem Ridge effective March 31, 2005. We have excluded these communities from calculations of occupancy and revenue per occupied unit for the first quarter of 2005.
- (3) We include the activities of these communities in our consolidated financial statements effective January 26, 2005.
- (4) We acquired a 1% interest as general partner in this partnership effective

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

January 26, 2005.

We continued to see revenue improvement at our apartments in the first quarter of 2005. Generally the first quarter is our weakest quarter in terms of apartment performance, primarily due to weak demand. In our markets the cycle seems to be that demand for apartments is at its lowest in the first quarter, strengthens through the second and third quarters, and then ebbs in the fourth quarter. Our objective for the first quarter of 2005 was to maintain occupancy at relatively high levels through the end of the quarter so that we would be in good position entering the second quarter. We were pleased that we were not only able to maintain occupancy but, on a same-units basis, were able to report improved apartment revenue as a result of improving rental rates. With occupancy at current levels, future increases in apartment revenue will have to come from increases in rental rates. We are reasonably confident in our ability to raise rates over both the near and longer term.

Restaurant rental income was \$1.0 million in the first quarters of both 2005 and 2004. We received the minimum rent specified in the lease agreement for both quarters. We currently hold 40 restaurant properties under this lease, and minimum rent is currently set at \$319,000 per month, or \$3.8 million per year.

18

Management fee income totaled \$115,000 in the first quarter of 2005, compared to \$198,000 in the first quarter of 2004. This decrease is primarily attributable to the elimination of management fees for Marina Shores and Villages of Chapel Hill with consolidation of these properties effective January 26, 2005. Going forward, management fees will be insignificant following our acquisition of four managed properties effective March 31, 2005.

### Expenses

Total expenses were \$22.7 million in the first quarter of 2005, an increase of \$11.9 million compared to \$10.8 million in the first quarter of 2004. This increase is primarily attributable to increases in non-cash charges for depreciation and a \$6.8 million charge for deficit distributions to a minority partner.

We reflect the unaffiliated partners' interests in Marina Shores Associates One Limited Partnership ("Marina Shores Partnership") and The Villages of Chapel Hill Limited Partnership ("Villages Partnership") as minority interest in consolidated limited partnerships. Minority interest in consolidated limited partnerships represents the minority partners' share of the underlying net assets of these consolidated limited partnerships. When these consolidated limited partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we record a charge equal to the amount of such excess distributions, even though there is no economic effect or cost. We report this charge in our consolidated statements of operations as deficit distributions to minority partners. During the first quarter of 2005 we recorded charges for deficit distributions to the minority partner in the Marina Shores Partnership totaling \$6.8 million.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the first quarter of 2005 totaled \$5.4 million, an increase of \$1.6 million, or 40.9%, compared to the first quarter of 2004. This increase is primarily attributable to five apartment acquisitions in 2004, which contributed \$1.1 million to apartment operations expense in the first quarter of 2005. In addition, two apartment communities that we consolidate effective January 26, 2005, contributed \$0.4 million to this increase. On a same-units basis, apartment operations expense increased only 0.9% in the first quarter of 2005 compared to the first quarter of 2004.

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

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

Apartment administration (the costs associated with oversight, accounting and support of our apartment management activities for both owned and managed properties) totaled \$0.7 million in the first quarter of 2005, a 57.9% increase compared to the first quarter of 2004. Corporate administration expense totaled \$0.9 million in the first quarter of 2005, a 32.9% increase compared to the first quarter of 2004. These increases are primarily attributable to a \$110,000 increase in audit fees associated with requirements of Section 404 of the Sarbanes-Oxley Act of 2002, along with additional corporate support staff.

Depreciation expense totaled \$3.5 million in the first quarter of 2005, an increase of \$1.0 million, or 38.7%, compared to the first quarter of 2004. This increase is primarily attributable to acquisitions of five apartment communities in 2004 (\$0.7 million), along with depreciation expense for the two apartment communities that we consolidate effective January 26, 2005, which totaled \$0.3 million.

19

Interest expense totaled \$4.6 million in the first quarter of 2005, an increase of \$1.3 million, or 41.2%, compared to the first quarter of 2004. This increase is primarily attributable to approximately \$65 million in new debt issued in conjunction with acquisitions of apartment properties during 2004, along with the impact of consolidating Marina Shores and Villages of Chapel Hill during February and March of 2005. Overall, weighted average interest rates were 5.8% for the first quarter of 2005, compared to 5.7% for the first quarter of 2004, reflecting the increase in variable interest rates over the last 12 months.

### Net Income

Consolidated earnings before non-cash charges (for depreciation, amortization and write-off of unamortized loan costs at refinance) and before the \$6.8 million charge for deficit distributions to a minority partner (which has no economic effect or cost to the operating partnership) totaled \$3.3 million in the first quarter of 2005, an 8.6% increase compared to \$3.0 million for the first quarter of 2004. This increase is attributable to the positive impact of new apartment communities and improvements in apartment revenues, offset by a \$0.5 million charge for penalties paid at loan refinance by a consolidated limited partnership.

On a consolidated basis before minority interests in the consolidated limited partnerships and the minority interest in the operating partnership, the net loss for the first quarter of 2005 totaled \$7.3 million, compared to \$0.4 million in income before minority interests in the first quarter of 2004. This loss again reflects the impact of the \$6.8 million charge for deficit distributions to a minority partner and a \$0.5 million charge for penalties paid at loan refinance by a consolidated limited partnership, along with an additional \$0.2 million charge to write off unamortized loan costs at refinance by a consolidated limited partnership.

We allocate proportional income and losses of the consolidated limited partnerships to minority partners to the extent of the carrying amount of the minority interest. We record a charge when losses attributable to the consolidated limited partners of a consolidated limited partnership exceed the carrying amount of the minority interest, even though there is no economic effect or cost. During the first quarter of 2005 we recorded charges for

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

consolidated limited partnership losses, resulting primarily from depreciation and costs related to refinance of the Partnership's first deed of trust loan, of approximately \$621,000 that were not allocated to the minority partner in Marina Shores Partnership because the losses exceeded the carrying amount of the minority interest.

Minority interests in the Villages Partnership and the operating partnership absorbed \$1.4 million of the consolidated losses for the quarter ended March 31, 2005. After allocating those losses to minority interests, the net loss for the first quarter of 2005 was \$6.0 million, compared to \$373,000 net income for the first quarter of 2004.

Because the preferred shareholder has priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to the preferred shareholder in calculating net income available to common shareholders. After deducting \$250,000 for the cumulative preferred dividend, the net loss for the first quarter of 2005 was \$6.2 million, compared to net income of \$123,000 in 2004.

### Funds from Operations

Funds from operations is frequently referred to as "FFO." FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in

20

accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the operating partnership, we measure FFO at the operating partnership level (i.e., before minority interest).

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

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

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. Nor do FFO or FAD measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders and unitholders. You should not consider FFO or FAD to be alternatives to net income as reliable measures of the company's operating performance; nor should you consider FFO or FAD to be alternatives to cash flows from operating, investing or financing

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

activities (as defined by generally accepted accounting principals) as measures of liquidity. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

Funds from operations totaled \$3.3 million in the first quarter of 2005, a 23.0% increase compared to the first quarter of 2004. This comparison reflects the positive impact of apartment additions and the improvement in apartment operating results.

We calculated FFO of the operating partnership as follows (all amounts in thousands):

	Three months ended March 31	
	2005	2004
(Loss) income before minority interest	\$ (7,311)	\$ 408
Cumulative preferred dividend	(250)	(250)
Depreciation	3,522	2,540
Deficit distributions to minority partners of consolidated limited partnerships(1)	6,821	-

21

	Three months ended March 31	
	2005	2004
Minority interest in FFO of consolidated limited partnerships	538	-
Funds from operations	\$ 3,320	\$ 2,698

- (1) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our statement of operations when cash is distributed to a non-controlling partner in a consolidated limited partnership in excess of the positive balance in such partner's capital account (which is classified as minority interest in our consolidated balance sheet). We are required to record these charges for GAAP purposes even though there is no economic effect or cost.

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

A reconciliation of FFO to FAD follows (all amounts in thousands):

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

	Three months ended March 31	
	2005	2004
Funds from operations	\$ 3,320	\$ 2,698
Amortization of loan costs	107	88
Write-off of unamortized loan costs at refinance	160	-
Recurring capital expenditures	(458)	(275)
Minority interest in consolidated limited partnerships' share of reconciling items	(155)	-
Funds available for distribution	\$ 2,974	\$ 2,511

22

A further reconciliation of FAD to net cash provided by operating activities follows (all amounts in thousands):

	Three months ended March 31	
	2005	2004
Funds available for distribution	\$2,974	\$2,511
Cumulative preferred dividend (1)	250	250
Minority interest in FFO of consolidated limited partnerships(1)	(538)	-
Recurring capital expenditures(2)	458	275
Minority interest in consolidated limited partnerships' share of reconciling items(2)	155	-
Amortization of deferred interest defeasance	(31)	(79)
Changes in operating assets and liabilities	(591)	440
Net cash provided by operating activities	\$2,677	\$3,398

- (1) These adjustments serve to reverse the effect of reconciling items in the above reconciliation of (loss) income before minority interest to funds from operations.
- (2) These adjustments serve to reverse the effect of reconciling items in the above reconciliation of FFO to FAD.

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

	Three months ended March 31	
	2005	2004

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

Net cash provided by (used in):		
Operating activities	\$2,677	\$3,398
Investing activities	(1,847)	(511)
Financing activities	1,236	(2,258)
Dividends and distributions paid to:		
Preferred shareholders	\$ 250	\$ 250
Common shareholders	2,272	1,477
Minority partners in consolidated limited partnerships	6,821	-
Minority unitholders in operating partnership	466	460
Scheduled debt principal payments	\$ 443	\$ 317
Non-recurring capital expenditures	832	283

23

	Three months ended March 31	
	2005	2004
	-----	-----
Weighted average shares outstanding		
Preferred shares	909	909
Common shares	8,983	6,406
Weighted average operating partnership minority units outstanding	1,870	1,841

### Capital Resources and Liquidity

#### Capital Resources

We completed several significant investing and financing transactions during the first quarter of 2005.

#### Acquisition of Boddie Investment Company

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

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

#### Investments in limited partnerships:

Marina Shores Associates One Limited Partnership	\$5,940
The Villages of Chapel Hill Limited Partnership	2

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

The Villages of Chapel Hill - Phase 5 Limited Partnership	7
BNP common stock held by BIC (which we immediately retired) 1,166	
Receivables from The Villages Limited Partnership for general partners' advances and accrued interest thereon	1,220
	-----
	\$8,335
	=====

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

24

### BIC Acquisition - Marina Shores Partnership

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

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

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

Prior to consolidation in our financial statements, the fair value of the real estate held by the Marina Shores Partnership significantly exceeded its depreciated net book value because the underlying real estate had appreciated significantly since the Partnership's original formation in the late 1980s. In our initial consolidation of this partnership, we reset the noncontrolling limited partner's capital account to \$-0-. Distributions to the limited partner subsequent to inclusion of the Partnership in our consolidated financial statements are, and will generally be, reflected in our consolidated financial

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

statements as "deficit distributions to minority partners."

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

### BIC Acquisition - The Villages Partnership

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

25

effective January 26, 2005. In our preliminary accounting for the BIC acquisition, the initial inclusion of the Villages Partnership in our consolidated financial statements resulted in (amounts in thousands):

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

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

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

We acquired a 1% general partner interest in The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages - Phase 5 Partnership"). Under the terms of the partnership agreement for the Villages - Phase 5 Partnership, the limited partners have certain voting rights that preclude control by the general partner. We have therefore accounted for our investment in this partnership by applying the equity method. Our initial investment in the Villages - Phase 5 Partnership was \$7,000, and we include this amount in "other assets" on our consolidated balance sheet.

### Acquisition of Shugart Properties

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

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

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

26

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

Immediately upon completion of this acquisition, we retired a \$1.5 million variable rate note related to Canterbury Apartments. The remaining assumed debt includes three fixed-rate notes totaling \$35.4 million at interest rates ranging from 5.0% to 6.8% and a \$5.9 million variable-rate note with interest at 30-day LIBOR plus 1.9%. A more detailed description of these notes payable is included in Note 2 of our financial statements in this Current Report on Form 10-Q.

### Other Equity Transactions

During the first quarter of 2005, we also

- o Issued 12,748 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of \$0.2 million;
- o Issued 57,500 shares of our common stock upon exercise of options by two employees for proceeds of \$0.7 million; and
- o Issued 73,333 shares of our common stock to redeem the name number of operating partnership units from a minority unitholder.

At March 31, 2005, we had 9.2 million common shares and 0.9 million preferred shares outstanding. In addition, there were 2.4 million operating partnership minority common units outstanding.

### Cash Flows and Liquidity

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

Net cash flows from operating activities were \$2.7 million in the first quarter of 2005, compared to \$3.4 million in the first quarter of 2004. The decline compared to 2004 is attributable to the \$0.5 million impact of prepayment penalties paid by Marina Shores Partnership in conjunction with refinancing of its long-term debt, along with timing of cash receipts and disbursements.

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

We have announced that the company will pay a regular quarterly dividend of \$0.25 per share (approximately \$2.3 million) on May 16, 2005, to shareholders of record of our common stock as of May 2, 2005, as well as \$250,000 of dividends to the preferred shareholder.

We generally expect to meet our short-term liquidity requirements through net cash provided by operations and utilization of credit facilities. We believe that net cash provided by operations is, and will continue to be, adequate to meet the REIT operating requirements in both the short term and the long term. We anticipate funding our future acquisition activities primarily by using short-term credit facilities as an interim measure, to be replaced by funds from equity offerings, long-term debt or joint venture investments. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and repayment of short-term financing of

27

possible property acquisitions, through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

### Critical Accounting Policies

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

### Accounting for VIEs

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

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

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

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

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

### Accounting for general partner interests in limited partnerships

As managing general partner in real estate limited partnerships, we have the ability to exercise significant influence over operating and financial policies. This influence is evident in the terms of the respective partnership agreements. However, we do not "control" the respective limited partnerships if the limited partners have significant rights, such as the right to replace the general partner and the right to approve the sale or refinancing of the assets of the respective

28

partnership in accordance with the partnership agreement. In acting as the general partner in these limited partnerships, we are committed to providing additional levels of funding to meet partnership operating deficits as may be needed.

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

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

We determined that the Villages - Phase 5 Partnership is not a VIE. Under the terms of the partnership agreement for the Villages - Phase 5 Partnership, the limited partners have certain voting rights that preclude control by the general partner. We have therefore accounted for our investment in this partnership by applying the equity method.

### Capital expenditures and depreciation

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

In general, for the 15 apartment properties acquired before 2002, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings.

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

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

Capital expenditures at our owned apartment communities during the first three months of 2005 totaled \$1.2 million, including \$0.3 million for acquisition improvements, \$0.5 million for additions and betterments, and \$0.4 million for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our owned apartment communities during the first three months of 2005

29

totalled \$1.8 million, including \$0.7 million in compensation of service staff and \$1.1 million in payments and materials and contracted services.

A summary of capital expenditures at our owned apartment communities through March 31, 2005, in aggregate and per apartment unit, follows:

	Total	Per unit
	-----	
	(000's)	
Recurring capital expenditures:		
Floor coverings	\$ 282	\$ 46
Appliances/HVAC	65	11
Exterior paint	-	-
Computer/support equipment	5	1
Other	85	14
	-----	-----
	\$ 437	\$ 72
	=====	=====
Non-recurring capital expenditures:		
Acquisition improvements at apartment properties	\$ 288	

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

Casualty replacements	-
Additions and betterments at apartment properties	509
Computer/support equipment	14
	-----
	\$ 811
	=====

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

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

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

As of March 31, 2005, total long-term debt, on a consolidated basis, totaled \$373.3 million, including \$296.7 million of notes payable at fixed rates ranging from 5.0% to 8.55%, and \$76.6 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.8% at March 31, 2005, compared to 5.9% at December 31, 2004. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$780,000.

The deed of trust loan for Harris Hill Apartments expires in June 2005. Based on our estimate of the underlying value of the property, we expect to refinance this loan at a lower rate than the 8.55% loan currently in place.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on instruments in place as of March 31, 2005 (all amounts in thousands).

30

	Expected maturity dates					
	2005	2006	2007	2008	2009	Later
	-----					
Fixed rate notes	\$ 7,388	\$ 2,884	\$ 50,890	\$ 42,472	\$ 31,484	\$161,522
Average interest rate	7.7%	5.3%	6.9%	6.5%	5.2%	5.9%
Variable rate notes	\$ 243	\$ 21,547	\$ 21,279	\$ 774	\$ 32,784	-
Average interest rate	4.6%	4.6%	4.5%	4.5%	4.5%	-

### Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information disclosed in our annual and periodic reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, we designed these disclosure controls and procedures to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

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

Based on our most recent evaluation, which was completed as of the end of the first quarter of 2005, our chief executive officer and chief financial officer believe that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the completion of this evaluation.

### Part II - Other Information

#### Item 2. Changes in Securities and Use of Proceeds

On January 26, 2005, we acquired Boddie Investment Company ("BIC") through a merger. Because of this merger, we succeeded BIC as the general partner of, and acquired an economic interest in, three limited partnerships. As consideration in the merger, we privately issued 508,578 shares of common stock pursuant to the exemption provided by Section 4(2) of the Securities Act. We issued those shares, which had a value on that date of \$16.10 per share, to B. Mayo Boddie and Nicholas B. Boddie. Upon closing the merger, we canceled 72,399 shares of our common stock that BIC held immediately before the merger. The value of the transaction was \$8.2 million based on the \$16.10 per share value.

#### Item 6. Exhibits

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

##### Exhibit No.

31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

31

### SIGNATURES

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

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

May 9, 2005

/s/ Philip S. Payne

-----  
Philip S. Payne  
Chairman and Chief Financial Officer  
(Duly authorized officer)

May 9, 2005

/s/ Pamela B. Bruno

-----

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

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

32

INDEX TO EXHIBITS

Exhibit No.		Page
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer	34
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer	35
32.1	Section 1350 Certification by Chief Executive Officer	36
32.2	Section 1350 Certification by Chief Financial Officer	37

33