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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
August 13, 2002

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

FORM 10-Q

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

For the quarterly period ended June 30, 2002  
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OR

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

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

Commission file number: 1-9496  
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BNP RESIDENTIAL PROPERTIES, INC.  
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(Exact name of Registrant as specified in its charter)

Maryland 56-1574675  
-----  
State or other jurisdiction of (I.R.S. Employer  
incorporation or organization Identification No.)

301 S. College Street, Suite 3850, Charlotte, NC 28202-6032  
-----  
(Address of principal executive offices) (Zip Code)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 5, 2002 (the latest practicable date).

Common Stock, \$.01 par value 5,787,545  
-----  
(Class) (Number of shares)

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PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Balance Sheets

	June 30 2002	Decem 2
	----- (Unaudited)	
Assets		
Real estate investments at cost:		
Apartment properties	\$254,678,175	\$22
Restaurant properties	39,529,527	3
	-----	-----
	294,207,702	26
Less accumulated depreciation	(44,717,132)	(4
	-----	-----
	249,490,570	21
Cash and cash equivalents	404,022	
Other current assets	3,577,325	
Notes receivable, net of reserve	131,002	

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Intangible assets, net of accumulated amortization:			
Intangible related to acquisition of management operations	1,115,088		
Deferred financing costs	1,182,707		
Total assets	\$255,900,714		\$22
<hr/>			
Liabilities and Shareholders' Equity			
Deed of trust and other notes payable	\$193,068,348		\$16
Accounts payable and accrued expenses	2,260,844		
Deferred revenue and security deposits	1,198,015		
Deferred credit for defeasance of interest, net of accumulated amortization	416,704		
Total liabilities	196,943,911		16
<hr/>			
Minority interest in Operating Partnership	19,083,483		1
Shareholders' equity:			
Preferred stock, \$.01 par value, 10,000,000 shares authorized, 227,273 shares issued and outstanding	2,500,000		
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 5,784,510 at June 30, 2002, 5,744,873 at December 31, 2001	57,845		
Additional paid-in capital	70,334,435		6
Dividend distributions in excess of net income	(33,018,960)		(3
Total shareholders' equity	39,873,320		4
<hr/>			
Total liabilities and shareholders' equity	\$255,900,714		\$22
<hr/>			

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BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Operations  
(Unaudited)

	Three months ended		Six months ended	
	2002	June 30 2001	2002	June 30 2001
		(Adjusted)		(A
<hr/>				
Revenues				
Apartment rental income	\$ 7,855,562	\$ 7,814,957	\$15,344,858	\$
Restaurant rental income	1,005,319	1,013,298	2,010,638	
Management fee income	286,606	104,380	580,794	
Interest and other income	68,995	306,698	106,194	
	<hr/>	<hr/>	<hr/>	
	9,216,482	9,239,333	18,042,484	
<hr/>				
Expenses				
Apartment operations	3,043,455	2,887,312	5,735,731	
Apartment administration	293,986	296,431	619,420	

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Corporate administration	495,766	492,260	1,089,160
Depreciation	2,020,606	1,974,179	3,967,140
Amortization of intangibles	50,025	49,093	97,950
Interest	2,657,075	2,813,069	5,162,072
	8,560,913	8,512,344	16,671,473
Income before minority interest and extraordinary item	655,569	726,989	1,371,011
Minority interest in Operating Partnership	137,641	167,332	287,211
Income before extraordinary item	517,928	559,657	1,083,800
Extraordinary item - loss on early extinguishment of debt	-	-	73,297
Net income	517,928	559,657	1,010,503
Cumulative preferred dividend	62,329	-	123,973
Income available to common shareholders	\$ 455,599	\$ 559,657	\$ 886,530
Per common share:			
Basic earnings per share -			
Before extraordinary item	\$0.09	\$0.09	\$0.19
Extraordinary item	-	-	(0.01)
Available to shareholders	0.07	0.09	0.15
Diluted earnings per share -			
Before extraordinary item	\$0.09	\$0.09	\$0.18
Extraordinary item	-	-	(0.01)
Available to shareholders	0.09	0.09	0.17
Dividends declared	0.31	0.31	0.62
Weighted average common shares outstanding	5,775,895	5,706,950	5,765,464

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity  
(Unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Divid distribu in exce net in
Balance December 31, 2001	227,273	\$2,500,000	5,744,873	\$57,449	\$69,872,958	\$(30,396)
Common stock issued	-	-	21,820	218	251,556	
Costs of preferred stock issue	-	-	-	-	(5,313)	
Dividends paid - preferred	-	-	-	-	-	(2)

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Dividends paid - common	-	-	-	-	-	(1,780)
Net income	-	-	-	-	-	492
Balance March 31, 2002	227,273	2,500,000	5,766,693	57,667	70,119,201	(31,687)
Common stock issued	-	-	17,817	178	215,234	
Dividends paid - preferred	-	-	-	-	-	(61)
Dividends paid - common	-	-	-	-	-	(1,787)
Net income	-	-	-	-	-	517
Balance June 30, 2002	227,273	\$2,500,000	5,784,510	\$57,845	\$70,334,435	\$(33,018)

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows  
(Unaudited)

	Six months ended June 30 2002	(Ad)
Operating activities:		
Net income	\$ 1,010,503	\$
Adjustments to reconcile net income to net cash provided by operations:		
Extraordinary item - loss on early extinguishment of debt	73,297	
Minority interest in Operating Partnership	287,211	
Depreciation and amortization of intangibles	4,065,090	
Amortization of defeasance credit	(83,328)	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,574,877)	
Accounts payable and accrued expenses	841,129	
Deferred revenue and security deposits	(200,283)	
Net cash provided by operating activities	4,418,742	
Investing activities:		
Acquisition of apartment properties	(9,989,369)	
Additions to apartment properties, net	(1,243,939)	
Sale of restaurant property	-	
Acquisition of minority interest in Management Company	-	
Net cash used in investing activities	(11,233,308)	
Financing activities:		
Costs of issuance of preferred stock	(5,313)	
Issuance of common stock	404,001	
Redemption of Operating Partnership minority units	-	
Distributions to Operating Partnership minority unitholders	(1,055,931)	
Dividends paid to preferred shareholder	(64,384)	

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Dividends paid to common shareholders	(3,568,586)	
Proceeds from notes payable	24,533,114	
Principal payments on notes payable	(14,128,310)	
Payment of deferred financing costs	(313,619)	
	5,800,972	
Net cash provided by (used in) financing activities	5,800,972	
Net decrease in cash and cash equivalents	(1,013,594)	
Cash and cash equivalents at beginning of period	1,417,616	
	\$ 404,022	\$
Cash and cash equivalents at end of period	\$ 404,022	\$

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### BNP RESIDENTIAL PROPERTIES, INC.

Notes to Consolidated Financial Statements - June 30, 2002  
(Unaudited)

#### Note 1. Interim financial statements

Our independent accountants have not audited the accompanying financial statements of BNP Residential Properties, Inc., except for the balance sheet at December 31, 2001. We derived the amounts in the balance sheet at December 31, 2001, from the financial statements included in our 2001 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals, except as discussed below) necessary for a fair presentation of the financial position and results of operations for the periods presented.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. You should read these financial statements in conjunction with our 2001 Annual Report on Form 10-K.

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

	2001 as Currently Presented	Adjustments	
Three months ended June 30, 2001			
Revenues	\$9,239,333	\$ -	
Expenses	8,512,344	(101,550)	

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Income before minority interest and extraordinary item	726,989	101,550	
Minority interest in Operating Partnership	167,332	23,373	
Income before extraordinary item	559,657	78,177	
Extraordinary item - loss on early extinguishment of debt	-	-	
Net income	\$ 559,657	\$ 78,177	\$

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	2001 as Currently Presented	Adjustments	2 Pr R
Six months ended June 30, 2001			
Revenues	\$18,196,603	\$ -	\$
Expenses	16,757,237	(203,100)	
Income before minority interest and extraordinary item	1,439,366	203,100	
Minority interest in Operating Partnership	331,386	46,759	
Income before extraordinary item	1,107,980	156,341	
Extraordinary item - loss on early extinguishment of debt	-	-	
Net income	\$ 1,107,980	\$ 156,341	

Note 2. Basis of Presentation

The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "Operating Partnership"). The company is the general partner and owns a majority interest in the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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

Note 3. Apartment properties acquisition

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Effective May 31, 2002, we acquired Barrington Place Apartments and Brookford Place Apartments for a contract price of approximately \$32.1 million. Preliminary consideration for this acquisition has been set as follows:

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

Through June 30, 2002, we have incurred and capitalized other direct costs of approximately \$77,000 related to this acquisition.

The number of Operating Partnership units issued is subject to adjustment based on a final accounting of property-level operations and related liabilities assumed. We do not expect any

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material change in the components of consideration or other direct costs of the acquisition described above.

Barrington Place Apartments is located in Charlotte, North Carolina and contains 348 one-, two- and three-bedroom apartments. Brookford Place Apartments is located in Winston-Salem, North Carolina and contains 108 one- and two-bedroom apartments.

We acquired these properties from a private investment group. Brookford Place Apartments was the last of seven properties to be acquired under our 1997 agreement with this group, which we refer to as the Chrysson Parties. Two members of the selling group currently serve on the Company's board of directors. Prior to this transaction, we managed both of the acquired properties under third-party management contracts.

#### Note 4. Long-term debt transactions

In conjunction with the acquisition of Barrington Place Apartments and Brookford Place Apartments, we assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million. This loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately \$136,000, with maturity in November 2010. We paid and recorded deferred loan costs of approximately \$161,000 related to this loan assumption.

On June 6, 2002, we applied \$4.9 million proceeds from a fixed-rate loan to retire existing loan obligations of the former owners of Barrington Place Apartments and Brookford Place Apartments. A deed of trust and assignment of rents of Brookford Place Apartments secure this loan. This loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$32,000, with maturity in August 2012. We paid and recorded deferred loan costs of approximately \$61,000 related to this loan transaction.

The balance of funds required for the acquisition of Barrington Place and Brookford Place came from operating cash and a \$5.0 million draw on our revolving line of credit secured by Latitudes Apartments. We also drew an additional \$500,000 on this revolving line of credit during May to fund other direct costs of the acquisition, loan fees, and improvements at apartment properties.



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In January 2002, we applied a \$6.0 million draw on our line of credit secured by Latitudes Apartments to retire a note payable in the amount of \$6,094,000, secured by a deed of trust and assignment of rents of Oakbrook Apartments. In February 2002, we subsequently issued a note payable in the amount of \$7,870,000 secured by a deed of trust and assignment of rents of Oakbrook Apartments. The note provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$52,000, with maturity in February 2012. We applied the proceeds of the Oakbrook note to reduce our Latitudes line of credit. In conjunction with the February refinance transaction, we paid and recorded deferred loan costs of approximately \$90,000.

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

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### Note 5. Shareholders' Equity

In May 2002, we issued 17,817 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$215,000.

In February 2002, we issued 16,258 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$189,000. In addition, we issued 5,562 shares of our common stock, in a non-cash transaction, to acquire the same number of Operating Partnership units from a former minority unitholder.

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

	Three months ended June 30		Six months ended June 30
	2002	2001	2002
	(Adjusted)		(
<b>Numerators:</b>			
Numerator for basic			
earnings per share -			
Income before			
extraordinary item	\$517,928	\$559,657	\$1,083,800
Extraordinary item	-	-	(73,297)
Cumulative preferred dividend	(62,329)	-	(123,973)
Income available to			
common shareholders	\$455,599	\$559,657	\$886,530
Numerator for diluted			
earnings per share -			
Income before			
extraordinary item (1)	\$655,569	\$726,989	\$1,371,011
Extraordinary item (1)	-	-	(95,032)
Income available to			
common shareholders (1)	\$655,569	\$726,989	\$1,275,979

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Denominators:

Denominator for basic earnings per share - weighted average shares outstanding	5,775,895	5,706,950	5,765,464
Effect of dilutive securities:			
Convertible preferred shares	227,273	-	227,273
Convertible Operating Partnership units	1,748,785	1,706,193	1,726,507
Stock options (2)	17,096	3,060	13,274
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	7,769,049	7,461,203	7,732,518

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- (1) Assumes conversion of Series B Preferred shares and Operating Partnership units to common shares; minority interest in income before extraordinary item and minority interest in extraordinary item have been eliminated.
- (2) We excluded options to purchase 140,000 shares of common stock at \$12.50, 110,000 shares at \$12.25, and 120,000 shares at \$13.125 from the calculation of diluted earnings per share for 2002 and 2001. We also excluded additional options to purchase 60,000 shares of common stock at \$11.25 from the calculation of diluted earnings per share for 2001. The exercise price of these options was greater than the average market price of the common shares for these periods, and the effect would be anti-dilutive.

Note 6. Subsequent events

On July 18, 2002, the Board of Directors declared a regular quarterly cash dividend of \$0.31 per share to be paid on August 15, 2002, to shareholders of record on August 1, 2002. The Board of Directors also authorized the payment of dividends totaling \$62,329 to Series B Preferred shareholders in accordance with the investment agreement for those shares.

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

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

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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 increase our debt service costs;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose key executive officers.

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

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

### Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. We currently manage 32 multi-family communities containing 7,303 units. Of these, we own 17 apartment communities containing 4,137 units. Third parties own the remaining 15 communities, containing 3,166 units, and we manage them on a contract basis. In addition to our apartment communities, we own 42 restaurant properties that we lease to a third party under a master lease on a triple-net basis.

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

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Partnership. We refer to the limited partners of the Operating Partnership as minority unitholders or as the minority interest.

Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6032, telephone 704/944-0100.

### Results of Operations

#### Revenues

Total revenues in the second quarter of 2002 were \$9.2 million, essentially flat compared to the second quarter of 2001. Total revenues through the first six months of 2002 were \$18.0 million, a decrease of 0.8% compared to the first six months of 2001. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for approximately 89% in the second quarters and through the first six months of both 2002 and 2001.

Apartment rental income totaled \$7.9 million in the second quarter of 2002, an increase of 0.5% compared to the second quarter of 2001. Through the first six months of 2002, apartment rental income totaled \$15.3 million, a decrease of 1.4% compared to the first six months of 2001. These amounts include approximately \$328,000 apartment rental income at Barrington Place and Brookford Place, which we acquired effective May 31, 2002. On a "same units" basis (those apartment units that we owned throughout the first six months of both years), apartment rental income decreased by 3.7% for the second quarter of 2002 compared to the second quarter of 2001, and by 3.5% for the first six months of 2002 compared to the first six months of 2001. These decreases were the result of slight declines in both occupancy and revenue per occupied unit.

For the second quarter of 2002, overall average economic occupancy declined by 1.3% while average revenue per occupied unit declined by 2.1%, compared to the second quarter of 2001. For the first six months of 2002, overall average economic occupancy declined by 2.2% while average revenue per occupied unit declined by 1.1%, compared to the first six months of 2001. These comparisons are generally consistent between overall results and same units results. For the second quarter of 2002, same units average economic occupancy declined by 1.2%, while average revenue per occupied unit declined by 2.4%, compared to the second quarter of 2001. For the first six months of 2002, same units average economic occupancy declined by 2.1%, while average revenue per occupied unit declined by 1.2%, compared to the first six months of 2001.

Overbuilding of apartment properties, a weak economy and extremely low home mortgage rates have led to intense competition for residents in our apartment markets. As a result, we have experienced declines in both occupancy and rental rates. While we remain committed to our apartment communities and markets over the long term, we do not expect a material improvement in our apartment operations until the economy strengthens sufficiently to promote job growth and increase demand for apartments. Exactly when that will occur is outside of our control and ability to predict. In the meantime, we will continue to focus on maximizing occupancy and improving efficiencies at both our apartment communities and corporate offices.

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

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	Three months ended June 30			Six months ended June 30		
	Number of apartment units	Average physical occupancy	Average economic occupancy	Average monthly revenue per occupied unit	Average physical occupancy	Average economic occupancy
Abbingtion Place	360	92.1%	92.1%	\$782	92.2%	92.3%
Allerton Place	228	90.9%	91.0%	767	92.3%	92.1%
Barrington Place*	348	91.9%	90.9%	819		
Brookford Place*	108	92.4%	91.0%	706		
Chason Ridge	252	95.8%	96.9%	701	96.3%	96.5%
Harris Hill	184	91.0%	92.3%	695	90.1%	91.6%
Latitudes	448	97.3%	97.8%	811	96.7%	97.1%
Madison Hall	128	95.5%	96.4%	601	94.4%	95.8%
Oakbrook	162	91.8%	92.2%	776	92.3%	92.3%
Oak Hollow	461	92.9%	93.3%	626	91.6%	91.9%
Paces Commons	336	89.7%	89.6%	679	88.6%	88.7%
Paces Village	198	88.7%	87.5%	668	86.5%	86.3%
Pepperstone	108	93.5%	95.1%	677	93.0%	93.8%
Savannah Place	172	90.2%	90.7%	721	92.2%	92.3%
Summerlyn Place	140	94.3%	95.0%	796	94.9%	95.5%
Waterford Place	240	95.6%	95.5%	844	93.8%	94.0%
Woods Edge	264	92.7%	93.0%	758	92.5%	92.3%
All apartments	4,137					
- 2002		92.9%	93.2%	733	92.5%	92.7%
- 2001		93.5%	94.5%	749	93.8%	94.9%
Same units	3,681					
- 2002		93.0%	93.3%	731	92.6%	92.8%
- 2001		93.5%	94.5%	749	93.8%	94.9%

\*Acquired May 31, 2002

Restaurant rental income was \$1.0 million in the second quarter of 2002, a 0.8% decrease compared to the second quarter of 2001. Through the first six months of 2002, restaurant rental income was \$2.0 million, a 1.6% decrease compared to the first six months of 2001. This decrease was the result of the sale of one restaurant property in the second quarter of 2001. Restaurant rental income for both 2002 and 2001 was the minimum rent. "Same store" (those restaurant properties that operated throughout the first six months of both 2002 and 2001) sales at our restaurant properties increased by 0.5% for the second quarter, and decreased by 1.0% for the first six months, of 2002 compared to 2001.

Through June 30, 2002, we have sold five of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement which allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value. Under our master lease with Enterprises, restaurant rental income payments are the greater of a specified minimum rent or 9.875% of food sales. The minimum rent is reduced by approximately \$8,000 per month, or \$96,000 per year, for each restaurant that is sold.

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Management fee income totaled \$287,000 in the second quarter of 2002 compared to \$105,000 in the second quarter of 2001. Through the first six months of 2002, management fee income totaled \$581,000, compared to \$217,000 through the first six months of 2001. This increase is primarily attributable to the addition of 15 managed properties in the fourth quarter and first half of 2002. We expect these comparisons to decline slightly with our acquisition of Barrington Place and Brookford Place, which we previously managed under third-party management contracts from October 2001 through May 2002. Management fee income related to these two properties totaled \$25,000 for the second quarter of 2002 (two months) and \$68,000 through the first five months of 2002.

Interest and other income totaled \$69,000 in the second quarter of 2002 compared to \$307,000 in the second quarter of 2001. Through the first six months of 2002, interest and other income totaled \$106,000, compared to \$381,000 through the first six months of 2001. These comparisons reflect the impact of non-routine income totaling approximately \$210,000 in June 2001, as well as a decline in interest income.

### Expenses

Total expenses, including non-cash charges for depreciation and amortization, were \$8.6 million in the second quarter of 2002, an increase of 0.6% compared to the second quarter of 2001. Through the first six months of 2002, total expenses were \$16.7 million, a 0.5% decrease compared to the first six months of 2001.

Effective January 1, 2002, in accordance with current accounting guidance, we no longer amortize the intangible related to our 1994 acquisition of management operations. We have adjusted the 2001 comparative amounts to exclude this amortization expense and conform to the 2002 presentation in our financial statements. This adjustment decreases our amortization expense by approximately \$102,000 for the second quarter of 2001 and \$203,000 for the first six months of 2001 from the amounts that we previously reported.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the second quarter of 2002 totaled \$3.0 million, a 5.4% increase compared to the second quarter of 2001. For the first six months of 2002, apartment operations expense was \$5.7 million, a 5.1% increase compared to the first six months of 2001. These amounts include approximately \$63,000 in apartment operations expenses for Barrington Place and Brookford Place, which we acquired May 31, 2002. On a same units basis, apartment operations expense increased 3.2% in the second quarter and 3.9% in the first six months of 2002 compared to 2001. These increases reflect a significant increase in property insurance expense, as well as higher costs associated with marketing, maintenance and resident turnover. Apartment operations expense represented 38.7% of related apartment rental income in the second quarter, and 37.4% of related apartment rental income through the first six months, of 2002, compared to 36.9% in the second quarter of 2001 and 35.1% through the first six months of 2001.

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

Apartment administration expense (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third party properties) was \$294,000 in the second quarter of 2002, a 0.8% decrease compared to the second quarter of 2001.

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Through the first six months of 2002, apartment administration expense was \$619,000, a 21.1% increase compared to the first six months of 2001. These comparisons reflect the initial impact of the addition of 15 managed properties to our management portfolio in the fourth quarter of 2001 and early 2002, as well as efficiencies gained during the second quarter of 2002.

Corporate administration expense was \$496,000 in the second quarter of 2002, an increase of 0.7% compared to the second quarter of 2001. Through the first six months of 2002, corporate administration expense was \$1.1 million, a 7.2% increase compared to the first six months of 2001. This increase was primarily attributable to a non-recurring expense of \$40,000 for outside consulting services.

Depreciation expense totaled \$2.0 million in the second quarter of 2002, a 2.4% increase compared to the second quarter of 2001. Through the first six months of 2002, depreciation expense totaled \$4.0 million, a 2.2% increase compared to the first six months of 2002. These increases are attributable to the addition of two communities (approximately \$75,000), as well as the impact of additions and replacements at other apartment communities.

Amortization expense (of deferred loan costs) was \$50,000 in the second quarter, and \$98,000 through the first six months, of 2002, essentially flat compared to 2001 amounts. As discussed above, we no longer amortize the intangible related to acquisition of management operations, and we have adjusted the 2001 comparative financial statements to exclude this amortization.

Interest expense totaled \$2.7 million in the second quarter of 2002, a 5.5% decrease compared to the second quarter of 2001. For the first six months of 2002, interest expense was \$5.2 million, a 10.9% decrease compared to the first six months of 2001. These amounts include approximately \$125,000 interest expense in June 2002 for first deed of trust loans related to Barrington Place and Brookford Place, which we acquired effective May 31, 2002. The decrease in interest expense was the result of the combined effect of lower interest rates on our lines of credit and the impact of refinancing two fixed-rate loans at lower rates during 2001 and early 2002. Variable interest rates have declined approximately 2.1% since June 2001. Overall, weighted average interest rates were 6.2% for the second quarter and first six months of 2002, compared to 6.9% for the second quarter of 2001 and 7.1% for the first six months of 2001.

During the first quarter of 2002, we refinanced long-term debt related to Oakbrook Apartments. This refinance is described below in our discussion of Capital Resources and Liquidity. In conjunction with this transaction, we wrote off unamortized loan costs of \$95,000. We have reflected this write-off, net of minority interests' share, with a charge of \$73,000 as an extraordinary item in the financial statements.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. Because preferred shareholders have priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to preferred shareholders in calculating net income available to common shareholders. The dividend on the Series B shares is \$1.10 per year per share. The cumulative preferred dividend totals approximately \$62,000 for the second quarter of 2002, and approximately \$124,000 for the first six months of 2002.

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Income available to common shareholders, after the cumulative preferred dividend, was \$456,000 for the second quarter of 2002, a decrease of 18.6% compared to the second quarter of 2001. For the first six months of 2002, income available to common shareholders, after the extraordinary item recorded in the first quarter and cumulative preferred dividend for two quarters, was \$887,000, a 20.0% decrease compared to the first six months of 2001.

Income before the cumulative preferred dividend was \$518,000 for the second quarter of 2002, a 7.5% decrease compared to the second quarter of 2002. For the first six months of 2002, income before the extraordinary item (that was recorded in the first quarter) and cumulative preferred dividend for two quarters was \$1.1 million, a 2.2% decrease compared to the first six months of 2001.

These comparisons reflect the favorable impact of lower interest rates, offset by the effect of declines in apartment operations, the extraordinary charge to earnings, and the cumulative preferred dividend. Operating Partnership earnings before interest, depreciation and amortization, and the extraordinary item decreased by 3.2% in the second quarter of 2002 and 5.4% through the first six months of 2002 compared to 2001.

### Funds from Operations

Funds from operations is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures."

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

We consider funds from operations and funds available for distribution to be useful in evaluating potential property acquisitions and measuring the operating performance of an equity REIT. We believe that, together with net income and cash flows, funds from operations and funds available for distribution provide investors with additional measures to evaluate the ability of the REIT to incur and service debt and to fund acquisitions and other capital expenditures. Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. You should not consider funds from operations or funds available for distribution:

- o to be alternatives to net income as reliable measures of our operating performance, or
- o to be alternatives to cash flows as measures of liquidity.

Funds from operations and funds available for distribution do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders. Funds from operations and funds available for distribution do not represent cash flows from operating, investing or financing activities as defined by generally accepted accounting principles. Further, funds from operations and funds available for distribution as disclosed by other REITs might not be comparable to our calculation of funds from operations or funds available for distribution.



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for the second quarter of 2002, a 3.2% decrease compared to the second quarter of 2001. For the first six months of 2002, funds from operations of the Operating Partnership totaled \$5.2 million, a 2.0% decrease compared to the first six months of 2001. These comparisons reflect the favorable impact of lower interest rates, offset by the effect of declines in apartment operations and the cumulative preferred dividend.

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

	Three months ended June 30		Six months ended June 30
	2002	2001	2002
	(Adjusted)		(Ad)
Income before minority interest and extraordinary item	\$ 656	\$ 727	\$1,371
Cumulative preferred dividend	(62)	-	(124)
Depreciation	2,021	1,974	3,967
	-----		-----
Funds from operations - Operating Partnership	\$2,614	\$2,701	\$5,214
	-----		-----

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

	Three months ended June 30		Six months ended June 30
	2002	2001	2002
Funds from operations - Operating Partnership	\$2,614	\$2,701	\$5,214
Amortization of loan costs	50	49	98
Recurring capital expenditures	(452)	(303)	(735)
	-----		-----
Funds available for distribution	\$2,212	\$2,447	\$4,577
	-----		-----

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

	Three months ended June 30		Six months ended June 30
	2002	2001	2002
Funds from operations - Operating Partnership	\$2,614	\$2,701	\$5,214
Minority interest in funds from operations	(608)	(622)	(1,202)

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Basic funds from operations available to common shareholders	\$2,006	\$2,079	\$4,013
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Other information about our historical cash flows follows (all amounts in thousands):

	Three months ended June 30		Six months ended June 30
	2002	2001	2002
Net cash provided by (used in):			
Operating activities	\$2,338	\$2,578	\$4,419
Investing activities	(10,689)	(264)	(11,233)
Financing activities	8,207	(2,815)	5,801
Dividends and distributions paid to:			
Preferred shareholders	\$ 62	\$ -	\$ 64
Common shareholders	1,788	1,769	3,569
Minority unitholders in Operating Partnership	527	529	1,056
Scheduled debt principal payments	\$ 72	\$ 96	\$ 120
Non-recurring capital expenditures	247	370	509
Weighted average shares outstanding			
Preferred shares	227	-	227
Common shares	5,776	5,707	5,765
Weighted average Operating Partnership minority units outstanding	1,749	1,706	1,727

### Capital Resources and Liquidity

#### Capital Resources

Effective May 31, 2002, we acquired Barrington Place Apartments and Brookford Place Apartments for a contract price of approximately \$32.1 million. This acquisition is described in detail in the notes to the financial statements included in this Quarterly Report as well as in a Form 8-K/A report that we filed with the Securities and Exchange Commission in late July. A summary of funding for this acquisition is as follows:

- o We assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million. This fixed-rate loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately \$136,000, with a balloon payment of approximately \$18.0 million due in November 2010.
- o We applied approximately \$4.9 million proceeds from a fixed-rate loan to retire existing obligations of the former owners. A deed of trust and assignment of rents of Brookford Place Apartments secure this loan.

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The loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$32,000, with a balloon payment of approximately \$4.2 million due in August 2012.

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- o We applied a \$5.0 million draw on our revolving line of credit secured by Latitudes Apartments and approximately \$100,000 operating cash to retire existing obligations of the former owners.
- o We tentatively issued approximately 147,000 Operating Partnership units with an imputed value of \$12.00 per unit, or approximately \$1.8 million. The number of units issued is subject to adjustment based on a final accounting of property-level operations and related liabilities assumed.

To date we have incurred other direct costs of approximately \$77,000 related to this acquisition. In addition, we paid and recorded deferred loan costs of approximately \$222,000 related to the loans for Barrington Place and Brookford Place. We drew an additional \$500,000 on our revolving line of credit secured by Latitudes Apartments during May to fund these payments as well as improvements at apartment properties.

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

As of June 30, 2002, total long-term debt was \$193.1 million, including \$149.0 million of notes payable at fixed interest rates ranging from 6.35% to 8.55%, and \$44.1 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 6.2% at June 30, 2002, and December 31, 2001, and 6.7% at June 30, 2001. At our current level of variable-rate debt, a 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$450,000.

In May 2002, we issued 17,817 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$215,000. In February 2002, we issued 16,258 shares of our common stock through this Plan for proceeds of approximately \$189,000. In addition, we issued 5,562 shares of our common stock, in a non-cash transaction, to acquire the same number of Operating Partnership units from a former minority unitholder.

### Cash flows and liquidity

Net cash flows from operating activities were \$2.3 million in the second quarter of 2002, compared to \$2.6 million in the second quarter of 2001. Through the first six months of 2002, net cash flows from operating activities were \$4.4 million, compared to \$5.3 million in the first six months of 2001.

We have announced that the company will pay a regular quarterly dividend of \$0.31 per share on August 15, 2002, to shareholders of record on August 1, 2002. We remain committed to paying the highest dividend that is reasonably prudent. However, any number of unforeseen events or circumstances (for example, a substantial decline in apartment operations, a substantial increase in short-term interest rates, or the sale of the restaurant properties or other assets) could necessitate a reduction in dividend. While we generate a substantial amount of cash flow after expenses, we currently pay out virtually

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all of it as dividends. The amount of dividend paid is determined by currently available cash flow and the outlook for future cash flow. Ultimately, the decision as to the amount of dividend paid is a judgment call in which we attempt to balance our

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desire to maximize the dividends paid to our shareholders with the cash needed to properly operate the company.

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

### Critical Accounting Policies - Capital expenditures and depreciation

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

For the acquisition of Barrington and Brookford, we performed a detailed analysis of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: land improvements, 7-20 years; short-lived building components, 5-20 years; base building structure, 60 years; and fixtures, equipment and floor coverings, 5-10 years.

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

Through June 30, 2002, repairs and maintenance at our apartment communities totaled approximately \$2.1 million, including \$764,000 in compensation of service staff and \$1,309,000 in payments for materials and contracted services.

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

Total	Per unit
-----	-----

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(000's)

Recurring capital expenditures:

Floor coverings	\$294	\$ 80
Appliances/HVAC	97	26

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	Total	Per unit
	-----	-----
	(000's)	
Exterior paint	108	29
Computer/support equipment	12	3
Other	224	61
	-----	-----
	\$735	\$200
	=====	=====

Non-recurring capital expenditures:

Acquisition improvements	\$344
Additions and betterments	135
Computer/support equipment	30
	-----
	\$509
	=====

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

Recently Issued Accounting Standards

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." Statement 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under Statement 4. We plan to adopt Statement 145 effective January 1, 2003. Upon adoption, the extraordinary items for loss on early extinguishment of debt that we have reported in 2002 and earlier will be reclassified to conform to Statement 145. While adoption of Statement 145 will have no impact on net income, it will tend to reduce funds from operations and income before extraordinary items and eliminate extraordinary items as previously reported.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information that would be provided under Item 305 of Regulation S-K since December 31, 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above.

Part II - Other Information

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

We held our Annual Meeting of Shareholders on May 23, 2003. Of the 5,766,693 shares of common stock issued, outstanding, and entitled to vote at

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this meeting, 5,364,373, or 93.0%, were present in person or by proxy. The following proposal was approved:

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	For	Against	Withheld/ Abstained
Election of directors to serve until the 2005 annual meeting:			
D. Scott Wilkerson	5,272,673	-0-	91,700
Paul G. Chrysson	5,281,309	-0-	83,064
Election of a director to serve until the 2003 annual meeting:			
B. Mayo Boddie	5,278,923	-0-	85,449
Election of a Series B director to serve until the 2003 annual meeting:			
Peter J. Weidhorn (elected by the holders of Series B Cumulative Preferred Stock)	227,273	-0-	-0-

Other directors, whose terms of office as directors continue after the meeting are as follows:

Serving until the 2003 annual meeting:

W. Michael Gilley

Serving until the 2004 annual meeting:

Stephen R. Blank

Philip S. Payne

### Item 5. Other Information

#### Re-appointment of officers

The Company has announced the re-appointment of the following officers:

D. Scott Wilkerson	President and Chief Executive Officer
Philip S. Payne	Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Secretary
Pamela B. Bruno	Vice President, Chief Accounting Officer, and Assistant Secretary
Douglas E. Anderson	Vice President and Secretary
Teresa Sandman	Vice President - Property Management

### Item 6. Exhibits and Reports on Form 8-K

#### a) Exhibits:

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

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Exhibit No.

99.1 Section 906 Certification by Chief Executive Officer  
99.2 Section 906 Certification by Chief Financial Officer

b) Reports on Form 8-K:

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

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SIGNATURES

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

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

August 12, 2002

/s/ Philip S. Payne

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

August 12, 2002

/s/ Pamela B. Bruno

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

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