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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
August 13, 2003

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, 2003  
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OR

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

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

Commission file number: 1-9496

BNP RESIDENTIAL PROPERTIES, INC.  
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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 28202-6024  
-----

(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 No X  
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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, 2003 (the latest practicable date).

Common Stock, \$.01 par value 5,865,392  
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(Class)

(Number of shares)

Exhibit index: page 25

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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 2003	Decem 2
	----- (Unaudited)	
Assets		
Real estate investments at cost:		
Apartment properties	\$282,566,625	\$27
Restaurant properties	38,335,989	3
	-----	-----
	320,902,614	31
Less accumulated depreciation	(53,915,162)	(4
	-----	-----
	266,987,452	26
Cash and cash equivalents	613,075	
Other current assets	4,876,655	
Notes receivable, net of reserve	100,000	

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Intangible assets, net of accumulated amortization:			
Intangible related to acquisition of management operations	1,115,088		
Deferred financing costs	1,143,045		
	-----	-----	-----
Total assets	\$274,835,315		\$27
	=====		=====
Liabilities and Shareholders' Equity			
Deed of trust and other notes payable	\$217,452,876		\$21
Accounts payable and accrued expenses	2,759,640		
Deferred revenue and security deposits	1,300,348		
Deferred credit for defeasance of interest, net of accumulated amortization	250,048		
	-----	-----	-----
Total liabilities	221,762,912		21
Minority interest in Operating Partnership	16,866,921		1
Shareholders' equity:			
Preferred stock, \$.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 454,545 at June 30, 2003, and December 31, 2002	5,000,000		
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 5,865,392 at June 30, 2003, 5,831,077 at December 31, 2002	58,654		
Additional paid-in capital	71,076,266		7
Dividend distributions in excess of net income	(39,929,438)		(3
	-----	-----	-----
Total shareholders' equity	36,205,482		3
	-----	-----	-----
Total liabilities and shareholders' equity	\$274,835,315		\$27
	=====		=====

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### BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Operations  
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2003	2002	2003	2002
	-----		-----	
Revenues				
Apartment rental income	\$ 8,951,665	\$ 7,855,562	\$17,837,949	\$
Restaurant rental income	981,383	1,005,319	1,980,709	
Management fee income	222,534	286,606	449,894	
Interest and other income	24,538	68,995	154,348	
	-----	-----	-----	-----
	10,180,120	9,216,482	20,422,900	
Expenses				
Apartment operations	3,851,990	3,043,455	7,325,887	

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Apartment administration	413,110	293,986	740,170
Corporate administration	657,275	495,766	1,344,340
Depreciation	2,489,079	2,020,606	4,822,397
Amortization of deferred loan costs	81,812	50,025	154,783
Interest	3,242,092	2,657,075	6,438,148
Write-off of unamortized loan costs at debt refinance	-	-	-
	<u>10,735,358</u>	<u>8,560,913</u>	<u>20,825,725</u>
(Loss) Income before minority interest	(555,238)	655,569	(402,825)
Minority interest in Operating Partnership	(162,716)	137,641	(156,093)
Net (loss) income	(392,522)	517,928	(246,732)
Cumulative preferred dividend	125,000	62,329	250,000
(Loss) Income available to common shareholders	<u>\$ (517,522)</u>	<u>\$ 455,599</u>	<u>\$ (496,732)</u>
Per share amounts:			
Basic earnings per share -			
Net (loss) income	\$ (0.06)	\$0.09	\$ (0.04)
(Loss) Income available to common shareholders	(0.08)	0.08	(0.08)
Diluted earnings per share -			
Net (loss) income	\$ (0.07)	\$0.09	\$ (0.05)
(Loss) Income available to common shareholders	(0.08)	0.07	(0.08)
Dividends declared	\$0.25	\$0.31	\$0.50
Weighted average common shares outstanding	5,857,298	5,775,895	5,848,435

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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, 2002	454,545	\$5,000,000	5,831,077	\$58,311	\$70,724,671	\$ (36,511)
Common stock issued	-	-	17,575	176	176,996	
Dividends paid - preferred	-	-	-	-	-	(126)
Dividends paid - common	-	-	-	-	-	(1,457)
Net income	-	-	-	-	-	145

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Balance March 31, 2003	454,545	5,000,000	5,848,652	58,487	70,901,667	(37,949)
Common stock issued	-	-	16,740	167	174,599	
Dividends paid - preferred	-	-	-	-	-	(125)
Dividends paid - common	-	-	-	-	-	(1,462)
Net loss	-	-	-	-	-	(392)
Balance June 30, 2003	454,545	\$5,000,000	5,865,392	\$58,654	\$71,076,266	\$(39,929)

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows  
(Unaudited)

	Six months ended June 30 2003	(Re)
Operating activities:		
Net (loss) income	\$ (246,732)	\$
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Minority interest in Operating Partnership	(156,093)	
Depreciation and amortization of loan costs	4,977,180	
Write-off of unamortized loan costs at debt refinance	-	
Amortization of defeasance credit	(83,328)	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,700,938)	
Accounts payable and accrued expenses	1,467,775	
Deferred revenue and security deposits	(68,148)	
Net cash provided by operating activities	4,189,716	
Investing activities:		
Acquisition of apartment property	(5,697,761)	
Additions to apartment properties, net	(1,353,253)	
Sale of restaurant property	587,761	
Net cash used in investing activities	(6,463,253)	
Financing activities:		
Costs of issuance of preferred stock	-	
Issuance of common stock	351,938	
Distributions to Operating Partnership minority unitholders	(924,479)	
Dividends paid to preferred shareholder	(251,027)	
Dividends paid to common shareholders	(2,919,933)	
Proceeds from notes payable	7,685,610	
Principal payments on notes payable	(1,817,669)	
Payment of deferred financing costs	(122,144)	

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Net cash provided by financing activities	2,002,296	
Net decrease in cash and cash equivalents	(271,241)	
Cash and cash equivalents at beginning of period	884,316	
Cash and cash equivalents at end of period	\$ 613,075	\$

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BNP RESIDENTIAL PROPERTIES, INC.

Notes to Consolidated Financial Statements - June 30, 2003  
(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, 2002. We derived the amounts in the balance sheet at December 31, 2002, from the financial statements included in our 2002 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals) 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 2002 Annual Report on Form 10-K.

### 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.

### Stock-Based Compensation

The company has one employee Stock Option and Incentive Plan in place. We account for this plan using the intrinsic value method, under the recognition and measurement principles of APB Opinion No. 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. If we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, the effect would be to reduce net income as reported by approximately \$240 in 2003 and \$5,000 in 2002, with no impact on basic and diluted earnings per share amounts as reported.

### Reclassifications

We adopted Statement of Financial Accounting Standards No. 145, "Rescission of

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FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections," effective January 1, 2003. Statement 145 generally requires 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 have reclassified the extraordinary item for loss on early extinguishment of debt in the first quarter of 2002 to conform to Statement 145. While adoption of Statement 145 has no impact on net income, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. We have adjusted the 2002 comparative amounts in our consolidated financial statements to conform to the 2003 presentation as follows:

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	2002 as Currently Presented	Adjustments	2 Pr R
Six months ended June 30, 2002			
Revenues	\$18,042,484	\$ -	\$
Expenses	16,766,505	95,032	
Income before minority interest and extraordinary item	1,275,979	(95,032)	
Minority interest in Operating Partnership	265,476	(21,735)	
Income before extraordinary item	1,010,503	(73,297)	
Extraordinary item - loss on early extinguishment of debt	-	(73,297)	
Net income	\$ 1,010,503	\$ -	\$

### Note 3. Apartment property acquisition

Effective March 13, 2003, we acquired The Place Apartments for a contract price of \$5.6 million, paid in cash. Through June 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000.

We funded this acquisition by the placement of a \$4.56 million first deed of trust loan together with draws of approximately \$1.1 million on our existing line of credit. In conjunction with this acquisition and financing, we funded repair escrows of approximately \$65,000 and paid lender fees and costs totaling approximately \$61,000.

### Note 4. Shareholders' Equity

In May 2003, we issued 16,740 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$175,000.

In February 2003, we issued 17,575 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$177,000.

We calculated basic and diluted earnings per common share using the following

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amounts:

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
<b>Numerators:</b>				
Numerator for basic earnings per share -				
Net (loss) income	\$ (392,522)	\$ 517,928	\$ (246,732)	\$ 517,928
Cumulative preferred dividend	(125,000)	(62,329)	(250,000)	(62,329)
(Loss) Income available to common shareholders	\$ (517,522)	\$ 455,599	\$ (496,732)	\$ 455,599

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	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
<b>Numerator for diluted earnings per share -</b>				
Net (loss) income (1)	\$ (555,238)	\$ 655,569	\$ (402,825)	\$ 655,569
Cumulative preferred dividend	(125,000)	(62,329)	(250,000)	(62,329)
(loss) Income available to common shareholders (1)	\$ (680,238)	\$ 593,240	\$ (652,825)	\$ 593,240
<b>Denominators:</b>				
Denominator for basic earnings per share - weighted average shares outstanding				
	5,857,298	5,775,895	5,848,435	5,775,895
Effect of dilutive securities:				
Convertible Operating Partnership units	1,844,264	1,748,785	1,844,264	1,748,785
Stock options (2)	5,360	17,096	4,422	17,096
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	7,706,922	7,541,776	7,697,121	7,541,776

Note 5. Subsequent event



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On July 17, 2003, the Board of Directors declared a regular quarterly cash dividend of \$0.25 per share to be paid on August 15, 2003, to common shareholders of record on August 1, 2003. The Board of Directors also authorized the payment of dividends totaling \$125,000 to the Series B Preferred shareholder 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.

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.

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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 own 19 apartment communities containing 4,571 units and provide third-party management services for 9 communities containing a total of 2,349 units. In addition to our apartment communities, we own 41 properties that we lease on a triple-net basis to a restaurant operator.

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

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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

The operating results for the quarter ended June 30, 2003, were disappointing. The second quarter is generally difficult for us and we had expected that, given the current economic environment, the second quarter of this year would be especially trying. We did not, however, fully anticipate the impact that continued weaknesses in our apartment markets would have on apartment revenue.

We believe the key to improving our operating results lies in increasing our apartment revenue and improving the efficiency of our operations. We have put a great deal of effort into controlling expenses, while at the same time maintaining our properties, and do not believe there are significant expense savings available to us. Any significant improvement in operating results will come primarily from improving occupancy at our apartment communities. To this end we are investing significant time and resources in attracting and retaining residents while improving our operating systems. We continue to believe that we will begin to see some signs of strengthening in our apartment markets late in 2003. However, to a large degree, this is dependent upon a general improvement in the economy.

### Revenues

Total revenues in the second quarter of 2003 were \$10.2 million, an increase of 10.5% compared to the second quarter of 2002. Total revenues through the first six months of 2003 were \$20.4 million, an increase of 13.2% compared to the first six months of 2002. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for approximately 90.4% of total revenues in the second quarter of 2003, compared to 89.1% in the second quarter of 2002. Through the first six months of 2003, apartment related income accounted for approximately 90.3% of total revenues compared to 88.9% in the first six months of 2002.

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Apartment rental income totaled \$9.0 million in the second quarter of 2003, an increase of 14.0% compared to the second quarter of 2002. Through the first six months of 2003, apartment rental income totaled \$17.8 million, an increase of 16.2% compared to the first six months of 2002. These increases are primarily attributable to the acquisition of three apartment communities in 2002 and one in the first quarter of 2003, which contributed approximately \$1.7 million to apartment rental income in the second quarter of 2003 and \$3.3 million in the first six months of 2003. For the second quarter of 2003, overall average economic occupancy declined by 1.8% while average revenue per occupied unit declined by 2.5%, compared to the second quarter of 2002. For the first six months of 2003, overall average economic occupancy declined by 1.6% while average revenue per occupied unit declined by 1.5 %, compared to the first six months of 2002.

On a "same-units" basis (the 15 apartment communities that we owned throughout the first six months of both years), apartment rental income decreased by 3.2% in the second quarter of 2003 compared to the second quarter of 2002, and by 2.9% for the first six months of 2003

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compared to the first six months of 2002. This decrease was the result of declines in both average economic occupancy and average revenue per occupied unit. For the second quarter of 2003, same-units average economic occupancy declined by 1.8% while average revenue per occupied unit declined by 1.4%, compared to the second quarter of 2002. For the first six months of 2003, same-units average economic occupancy declined by 1.6% while average revenue per occupied unit declined by 1.2%, compared to the first six months of 2002.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the second quarter and first six months of 2003 follow:

	Number of apartment units	Three months ended June 30		Six months e June 30
		Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Abbingtion Place	360	88.4%	\$759	89.2%
Allerton Place	228	90.0%	741	91.0%
Alta Harbour (2)	290	87.4%	726	87.5%
Barrington Place (2)	348	93.4%	720	93.3%
Brookford Place (2)	108	95.9%	673	94.9%
Chason Ridge	252	96.8%	746	96.0%
Harris Hill	184	92.6%	662	91.9%
Latitudes	448	95.4%	871	95.3%
Madison Hall	128	95.2%	567	96.9%
Oakbrook	162	93.1%	688	90.3%
Oak Hollow	461	86.4%	606	84.0%
Paces Commons	336	88.3%	663	89.8%
Paces Village	198	94.5%	639	94.9%
Pepperstone	108	92.3%	624	93.4%
Savannah Place	172	94.0%	680	93.0%

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Summerlyn Place	140	93.4%	822	92.6%
The Place (1)	144	85.1%	561	85.1%
Waterford Place	240	90.5%	825	89.9%
Woods Edge	264	91.7%	733	91.1%
All apartments (1)	4,571			
- 2003		91.4%	715	91.1%
- 2002		93.2%	733	92.7%
Same units (3)	3,681			
- 2003		91.5%	721	91.2%
- 2002		93.3%	731	92.8%

We remain committed to our markets and our focus on middle-market apartment properties. However, we continue to find ourselves in a very difficult operating environment. Low interest rates continue to fuel near-record levels of single-family home purchases by

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individuals who traditionally would have been apartment residents. Simultaneously, an anemic economy has resulted in extensive job losses. When you compound these two factors with the continuing uncertainty caused by the threat of terrorism, American military involvements abroad, expanding deficits at all government levels, impending property tax increases, and skyrocketing insurance costs, it is very difficult to form a clear vision of the near-term future.

In this environment, we believe the best way to achieve our long-term objectives is to focus our attention on the day-to-day operations of our apartment communities, with the goal of maximizing short-term performance while maintaining and enhancing the long-term potential of our apartment properties. We will also continue to seek opportunities to add to and improve the size and quality of our apartment portfolio.

Restaurant rental income was \$1.0 million in the second quarters, and \$2.0 million in the first six months, of both 2003 and 2002. A slight decline in 2003 restaurant rental income, as compared to 2002, was the result of the sale of one restaurant property late in the first quarter of 2003. Restaurant rental income for both 2003 and 2002 was the minimum rent. "Same-store" (those restaurant properties that operated throughout the first six months of both 2003 and 2002) sales at our restaurant properties decreased by 5.4% in the second quarter and 5.0% in the first six months of 2003 compared to these periods in 2002.

Through June 30, 2003, we have sold six of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement that 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. During the third quarter of 2003, we expect to sell one additional restaurant to Enterprises at its net book value of approximately \$650,000, and apply the proceeds to reduce our line of credit secured by the restaurant properties.

Management fee income for the second quarter of 2003 decreased to

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\$223,000, compared to \$287,000 in 2002. For the first six months of 2003, management fee income decreased to \$450,000 from \$581,000 for the same period in 2002. This decrease is attributable to our acquisition of two previously managed properties in May 2002, as well as the termination of management contracts for several smaller properties in the first quarter of 2003.

### Expenses

Effective January 1, 2003, in accordance with current accounting guidance, we report the loss on extinguishment of debt as an operating expense, rather than as an extraordinary item as previously required. We have reclassified the write-off of unamortized loan costs at refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. This reclassification has no impact on net income; however, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. A more detailed description of the reclassification adjustments is included in the notes to the financial statements included in this Quarterly Report.

Total expenses, including non-cash charges for depreciation, amortization and write-off of unamortized loan costs, were \$10.8 million in the second quarter of 2003, an increase of 25.4% compared to the second quarter of 2002. Through the first six months of 2003, total expenses were \$20.8 million, an increase of 24.2% compared to the first six months of 2002.

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Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the second quarter of 2003 was \$3.9 million, a 26.6% increase compared to the second quarter of 2002. In the first six months of 2003, apartment operations expense totaled \$7.3 million, a 27.7% increase compared to the first six months of 2002. These increases reflect the addition of three apartment communities during 2002 and one community in the first quarter of 2003, as well as significant increases in compensation, utilities, and property insurance costs. On a same-units basis, apartment operations expense increased by 2.0% in the second quarter and 4.3% in the first six months of 2003 as compared to 2002.

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 \$413,000 in the second quarter of 2003, a 40.5% increase compared to the second quarter of 2002. In the first six months of 2003, apartment administration expense totaled \$740,000, an increase of 19.5% compared to the first six months of 2002. These increases are primarily attributable to increased compensation and costs arising from implementation of new property management software.

Corporate administration expense was \$657,000 in the second quarter of 2003, an increase of 32.6% compared to the second quarter of 2002. In the first six months of 2003, corporate administration expense totaled \$1.3 million, a 23.4% increase compared to the first six months of 2002. This increase was primarily attributable to increases in compensation and insurance expense. In January 2003, we added an in-house general counsel position to our executive team.

Depreciation expense totaled \$2.5 million in the second quarter of 2003, a 23.2% increase compared to the second quarter of 2002. In the first six

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months of 2003, depreciation expense totaled \$4.8 million, a 21.6% increase compared to the first six months of 2002. This increase is attributable to the addition of apartment communities, as well as the impact of additions and replacements at other apartment communities.

Amortization expense (of deferred loan costs) was \$81,000 in the second quarter of 2003, compared to \$50,000 in the second quarter of 2002. In the first six months of 2003, amortization expense totaled \$155,000, compared to \$98,000 in the first six months of 2002. These increases are primarily attributable to the impact of loan costs associated with financing transactions in 2002.

Interest expense totaled \$3.2 million in the second quarter of 2003, a 22.0% increase compared to the second quarter of 2002. In the first six months of 2003, interest expense totaled \$6.4 million, a 24.7% increase compared to the first six months of 2002. This increase reflects the impact of approximately \$55 million in new debt related to apartment acquisitions in the second and third quarters of 2002 and the first quarter of 2003, reduced by the effect of lower interest rates on our lines of credit. Overall, weighted average interest rates were 6.0% for the second quarter and first six months of 2003, compared to 6.2% for the second quarter and first six months of 2002.

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During the first quarter of 2002, we refinanced long-term debt related to Oakbrook Apartments. In conjunction with this transaction, we wrote off unamortized loan costs of \$95,000. As discussed above, we have reclassified the write-off of unamortized loan costs at the date of the refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. We previously 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. In September 2002, we issued an additional 227,272 shares of this 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 share per year. The cumulative preferred dividend totaled \$125,000 for the second quarter and \$250,000 for the first six months of 2003, compared to approximately \$62,000 for the second quarter, and \$124,000 for the first six months, of 2002.

Net income/loss

The net loss (before the cumulative preferred dividend) for the second quarter of 2003 was \$393,000, compared to net income of \$518,000 for the second quarter of 2002. For the first six months of 2003, the net loss was \$247,000, compared to \$1.0 million net income for the first six months of 2002. These comparisons reflect the impact of decline in apartments operating results.

Funds from Operations

Funds from operations is frequently referred to as "FFO." FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the Operating Partnership, we measure FFO at the operating partnership level (i.e., before minority interest).

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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.

We calculate funds available for distribution 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, funds available for distribution 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, as well as to fund distributions to shareholders and minority unitholders.

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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 the company's 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.

Funds from operations of the Operating Partnership totaled \$1.8 million in the second quarter of 2003, a 30.8% decrease compared to the second quarter of 2002. For the first six months of 2003, funds from operations totaled \$4.2 million, an 18.5% decrease compared to the first six months of 2002. This comparison reflects the impact of decline in apartment operating results and the increased cumulative preferred dividend.

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

	Three months ended June 30		Six months en June 30
	2003	2002	2003
(Loss) Income before minority interest	\$ (555)	\$ 656	\$ (403)
Cumulative preferred dividend	(125)	(62)	(250)
Depreciation	2,489	2,021	4,822
Funds from operations -			

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Operating Partnership	\$ 1,809	\$ 2,614	\$ 4,170	
	=====	=====	=====	=====
Per share amounts - diluted*:				
Net (loss) income	\$ (0.07)	\$ 0.09	\$ (0.05)	\$
(Loss) Income available to common shareholders	(0.08)	0.07	(0.08)	
Funds from operations	0.23	0.34	0.54	

\* assumes conversion of Operating Partnership units to common shares; minority interest in the Operating Partnership has been eliminated. Preferred stock is antidilutive for all periods.

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

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	(Re)
	-----		-----	-----
Funds from operations -				
Operating Partnership	\$ 1,809	\$ 2,614	\$ 4,170	
Amortization of loan costs	82	50	155	
Write-off of unamortized loan costs at refinance	-	-	-	
Recurring capital expenditures	(408)	(452)	(690)	
	-----		-----	-----
Funds available for distribution - Operating Partnership	\$ 1,483	\$ 2,212	\$ 3,635	
	=====		=====	=====

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

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	(Re)
	-----		-----	-----
Funds from operations -				
Operating Partnership	\$ 1,809	\$ 2,614	\$ 4,170	
Minority interest in funds from operations	(433)	(608)	(1,000)	
	-----		-----	-----
Funds from operations available to common shareholders	\$ 1,376	\$ 2,006	\$ 3,170	
	=====		=====	=====



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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
	2003	2002	2003
Net cash provided by (used in):			
Operating activities	\$ 1,971	\$ 2,338	\$ 4,190
Investing activities	(600)	(10,689)	(6,463)
Financing activities	(1,171)	8,207	2,002
Dividends and distributions paid to:			
Preferred shareholders	\$ 125	\$ 62	\$ 251
Common shareholders	1,462	1,788	2,920
Minority unitholders in Operating Partnership	462	527	924
Scheduled debt principal payments	\$ 285	\$ 72	\$ 559
Non-recurring capital expenditures	193	247	664

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	Three months ended June 30		Six months ended June 30
	2003	2002	2003
Weighted average shares outstanding			
Preferred shares	455	227	455
Common shares	5,857	5,776	5,848
Weighted average Operating Partnership minority units outstanding			
	1,844	1,749	1,844

### Capital Resources and Liquidity

#### Capital Resources

On March 13, 2003, we acquired The Place Apartments for approximately \$5.6 million in cash. We financed this acquisition through issuance of a first deed of trust note in the amount of \$4.56 million together with draws of approximately \$1.1 million on our line of credit secured by Latitudes Apartments. The fixed-rate deed of trust loan provides for interest at 5.06% and monthly payments including principal and interest of approximately \$33,000, with maturity in 2013. In conjunction with this acquisition and financing, we funded repair escrows of approximately \$65,000 and paid lender fees and costs totaling approximately \$61,000. Through June 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000.

Effective February 21, 2003, we sold one restaurant property to the lessee for its net carrying value of approximately \$588,000. We applied the proceeds from this sale to reduce our line of credit secured by the restaurant

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properties. We expect to complete the sale of one additional restaurant property with a net carrying value of approximately \$650,000 to the lessee during the third quarter, again at net carrying value, and apply the proceeds to reduce our line of credit secured by the restaurant properties.

Through the first six months of 2003, we have made draws on our variable-rate lines of credit totaling approximately \$1.7 million to fund acquisition activities and capital replacements and improvements.

As of June 30, 2003, total long-term debt was \$217.5 million, including \$168.8 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and \$48.7 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.9% at June 30, 2003, down from 6.1% at December 31, 2002. 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 \$494,000.

During the second quarter of 2003, we issued approximately 16,700 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$175,000. During the first quarter of 2003, we issued approximately 17,600 shares of our common stock through this plan for proceeds of approximately \$177,000.

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### Cash flows and liquidity

Net cash flows from operating activities were \$2.0 million in the second quarter of 2003, compared to \$2.3 million in the second quarter of 2002. Through the first six months of 2003, net cash flows from operating activities were \$4.2 million, compared to \$4.4 million in the first six months of 2002. Investing and financing activities, other than those described under "Capital Resources" above, consisted of 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 on August 15, 2003, to shareholders of record of our common stock on August 1, 2003.

In January 2003, we announced we were reducing our quarterly dividend to \$0.25 per share from the \$0.31 per share per quarter that had been paid for a number of years. While this was not pleasant, we felt that, given the current operating environment and the uncertain near-term outlook, a reduction in dividend was necessary. You should not view this decision as a sign that we have changed our philosophy concerning the dividend, for we remain committed to paying the highest dividend that is reasonably prudent. While we are not philosophically opposed to paying dividends that temporarily exceed current cash flow after operating expenses, this would occur only when we were confident that we would see significant improvement in operations in a relatively short period of time.

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 our operating requirements for 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

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or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

### Critical Accounting Policies - Capital expenditures and depreciation

Our critical accounting policies are identified and discussed in our Annual Report on Form 10-K under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies." Our policy and practice regarding capital expenditures and depreciation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

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 acquisitions of Barrington Place, Brookford Place and Alta Harbour Apartments in 2002, we performed detailed analyses 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,

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equipment and floor coverings, 5-10 years. We expect to complete a detailed analysis of components for The Place Apartments in the near future.

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 apartment communities during the second quarter of 2003 totaled approximately \$600,000, including \$109,000 for acquisition improvements, \$83,000 for additions and betterments, and \$408,000 for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during the second quarter of 2003 totaled approximately \$1.4 million. Through the first six months of 2003, repairs and maintenance at our apartment communities totaled \$2.6 million, including \$1.0 million in compensation of service staff and \$1.6 million in payments for materials and contracted services.

A summary of capital expenditures at our apartment communities through June 30, 2003, in aggregate and per apartment unit, follows:

Total	Per unit
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(000's)

Recurring capital expenditures:		
Floor coverings	\$331	\$ 74
Appliances/HVAC	99	22
Exterior paint	16	4
Computer/support equipment	9	2
Other	235	52
	-----	-----
	\$690	\$153
	=====	=====
Non-recurring capital expenditures:		
Acquisition improvements	\$314	
Additions and betterments	337	
Computer/support equipment	12	
	-----	
	\$664	
	=====	

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

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### 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, 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above for a discussion of our exposure to interest rate risks.

### Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures are further designed 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.

Based on our most recent evaluation, which was completed as of the end of the second quarter of 2003, 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 4. Submission of Matters to a Vote of Security Holders

We held our Annual Meeting of Shareholders on May 28, 2003. Of the 5,848,652 shares of common stock issued, outstanding, and entitled to vote at this meeting, 5,453,132, or 93.2%, were present in person or by proxy. The

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following proposal was approved:

	For	Against	Withheld/ Abstained
Election of directors to serve until the 2006 annual meeting:			
B. Mayo Boddie	5,382,242	-0-	70,890
W. Michael Gilley	5,383,942	-0-	69,190
Election of a Series B director to serve until the 2004 annual meeting:			
Peter J. Weidhorn (elected by the holders of Series B Cumulative Preferred Stock)	454,545	-0-	-0-

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

Serving until the 2004 annual meeting:

Stephen R. Blank  
Philip S. Payne

Serving until the 2005 annual meeting:

D. Scott Wilkerson  
Paul G. Chrysson

### 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
Eric S. Rohm	Vice President, General Counsel
Douglas E. Anderson	Vice President and Secretary
Teresa Sandman	Vice President - Property Management

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

#### a) Exhibits:

##### Exhibit No.

31.1	Section 302 Certification by Chief Executive Officer
31.2	Section 302 Certification by Chief Financial Officer
32.1	Section 906 Certification by Chief Executive Officer
32.2	Section 906 Certification by Chief Financial Officer

#### b) Reports on Form 8-K:

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We filed a Current Report on Form 8-K on May 6, 2003, to furnish under Items 9 and 12 a press release announcing the results of operations and financial condition of the company as of and for the quarter ended March 31, 2003.

We filed a Current Report on Form 8-K on May 14, 2003, to furnish under Items 9 and 12 a report to shareholders announcing the results of operations and financial condition of the company as of and for the quarter ended March 31, 2003.

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We filed a Current Report on Form 8-K on June 27, 2003, to respond under Item 5 to a question from the Securities and Exchange Commission regarding our Registration Statement on Form S-3 (333-106090) dated June 13, 2003.

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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, 2003

/s/ Philip S. Payne

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

August 12, 2003

/s/ Pamela B. Bruno

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

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