AMERIVEST PROPERTIES INC
Form 10-K
March 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

o **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 1-14462

AMERIVEST PROPERTIES INC.

(Exact name of Registrant as Specified in Its Charter)

Maryland (State or other jurisdiction of incorporation or organization)	**84-1240264** (I.R.S. Employer Identification Number)

1780 South Bellaire Street, Suite 100
Denver, Colorado 80222
(Address of principal executive offices and zip code)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class		Name of Each Exchange on Which Registered
Common Stock, $.001 par value		American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act:

None.
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Based on the closing price of the registrant s common shares on June 30, 2005 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $88,600,000. As of March 15, 2006, there were approximately 24,124,000 of the registrant s common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer s definitive proxy statement for its 2006 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Disclosure Regarding Forward-Looking Statements And Cautionary Statements

This annual report includes statements that are not historical facts. These statements are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) based, among other things, on our current expectations and beliefs and are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those described in the forward-looking statements. There are forward-looking statements throughout this annual report, including in statements containing the words will, plan, believe, expect, anticipate, should, target, intend, may, could, would and similar expressions. Forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those described in the forward-looking statements. Many of these risks and uncertainties are beyond our control and their potential effect on our company is difficult or impossible to predict accurately.

You should not place undue reliance on forward-looking statements. In light of the significant uncertainties inherent in forward-looking statements, the inclusion of such information in this annual report should not be regarded as a representation by our company or any other person that our objectives or plans will be realized. The forward-looking statements contained in this annual report speak only as of the date that they are made and we do not undertake any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting these forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

As used herein, we , us , our and the Company refer to AmeriVest Properties Inc., a Maryland corporation. We were incorporated in the State of Maryland in 1999. We are a Real Estate Investment Trust (REIT) investing in, operating and leasing commercial office buildings primarily to small and medium size tenants. At December 31, 2005, we owned 14 properties, which included an aggregate of approximately 2,160,000 square feet located in metropolitan Denver, Dallas, Phoenix and Indianapolis. In January 2006, we sold two properties in Phoenix and Indianapolis, reducing our total ownership to 12 properties with approximately 1,730,000 square feet in Denver, Dallas and Phoenix.

We have elected to be taxed as a REIT for federal income tax purposes and generally will not be subject to federal income tax if we distribute at least 90% of our taxable income and comply with a number of organizational and operational requirements.

Plan of Liquidation

On February 9, 2006, our Board of Directors adopted a plan for the complete liquidation and dissolution of our Company (the Plan). We intend to present this Plan to stockholders for their approval at the 2006 annual stockholders meeting. Management and the Board of Directors estimate that, if stockholders approve the Plan, total liquidating distributions to common stockholders will be within the range of $4.20 to $4.80 per share and will be paid within 6 to 24 months after adoption of the Plan, as our assets are sold and we wind up our operations and dissolve the Company . This estimated distribution range is based on numerous assumptions, notably including the sales price of assets for which no definitive sale agreements or letters of intent are currently in place. Although management and the Board of Directors believe our assumptions are reasonable and have solicited and received input from various outside investment and real estate brokers, the assumptions may prove to be inaccurate and the ultimate amount of liquidating distributions to stockholders may be reduced or delayed.

If, prior to stockholder approval of the Plan, the Company receives a binding offer for a corporate transaction that will, in the view of the Board of Directors, provide a superior value to stockholders than

the value of the estimated net distributions under the Plan from the sale of the assets, taking into account all factors that could affect valuation, including timing and certainty of close, real estate and investment market risks, transaction, operating, leasing and loan prepayment costs and other factors, the Plan could be abandoned in favor of such a transaction.

If a binding offer for a corporate transaction is not received and the Plan is submitted to, but not approved by, our stockholders, our Board of Directors will meet to consider the best remaining alternative course of action for the Company. In that event, we cannot currently predict what that course of action would be, since it would depend upon facts and circumstances at that time.

Throughout this report, we describe our historical business strategy. Since adoption of the Plan in February 2006, we have departed from our historical strategy and are working towards completing an orderly sale of the Company or liquidation of our assets. Under Maryland law, the sale of all or substantially all of our assets requires stockholder approval. However, if the Company is not sold or the stockholders do not approve the Plan, we may decide to continue making strategic dispositions, within the limits of the law. We have no current intent to engage in acquisitions in the foreseeable future.

Business Strategy

Our primary business objectives are to increase cash available for distribution per share to stockholders and to enhance stockholder value. If the Plan is approved, our primary objective will be to maximize distributions to stockholders by selling our properties for the best price attainable in an orderly liquidation pursuant to the Plan.

Strategic Alternative Review

In November 2004, the Board authorized and retained the investment banking firm of Bear, Stearns and Co., Inc. to advise the Company on various strategic, financial and business alternatives, including the potential sale or merger of the Company and other possible transactions, including a recapitalization or other alternatives that would keep the Company independent. In September 2005 the Company announced a strategic asset sale and operational restructuring plan to dispose of five properties, repay and restructure outstanding bank debt and transition property management to third parties, all of which were subsequently completed. As a result of information gathered in this process, the continuing review of the strategic alternatives available and based upon advice from third party advisors with respect to the value of the remaining properties and the real estate and capital markets, in February 2006 the Board of Directors concluded that it was in the best interest of the Company s stockholders to approve the Plan.

Historical Business Strategy

Our primary strategies have traditionally been to focus our efforts on the acquisition, rehabilitation and development of multi-tenant office buildings with a targeted average smaller tenant size (generally between 2,000 and 4,000 square feet) in select cities. However, for approximately the past year, we have not made any acquisitions and we have no current intent to engage in additional acquisitions in the foreseeable future. Until a corporate sale is completed or the Plan is approved, or should neither event occur, our intent is to operate our properties in such a manner as to maximize cash flow while increasing the value of the properties and continuing to provide our tenants with a high standard of service.

We continue to believe that office space for small to medium size businesses is a large and underserved market. Small to medium size businesses often have specific needs and limitations that are different from larger businesses. For example, small and medium size businesses generally cannot afford large corporate staffs to manage their office leasing requirements. These businesses have needs similar to larger firms, such as access to cutting edge technology, conference facilities, high quality telecommunications services and other amenities, but may not have a comparable budget. Our strategy is

to focus on providing an office product targeted to this large market and its unmet needs in a cost effective manner. The key elements of our traditional strategy are described below.

Provide a Superior, Consistent Product

We provide amenities for the small and medium size businesses in our office properties that usually only larger companies would be able to obtain, such as conference rooms with the latest telecommunication and presentation equipment, high levels of common area and tenant finish, including well-designed, pre-built move-in ready space, and depending on location, various other technology and service amenities relative to the needs of our targeted small business tenant.

Streamline the Leasing Process

Our leasing process is designed to meet the unique needs of a small to medium size tenant with limited real estate expertise, through our no hassle leasing philosophy which reduces the lease transaction time and cost for the tenant and us.

Provide a High Level of Service

With our deliberate focus on small and medium size businesses, we have developed a positive, service-oriented approach specifically tailored for our customer base. During the latter part of 2005, we transitioned our on-site management to third party property management companies. We have worked with these managers to ensure that we continue to provide a high level of service in the most cost-effective manner possible. The third party managers report to a senior director in our Denver corporate headquarters, providing direct and regular feedback on tenant concerns. We believe that our customer-focused management strategy improves our tenant retention rates over the long-term.

Target Select Cities

Historically, we have focused on employing our strategy in buildings or projects containing at least 100,000 square feet, within select cities where we have worked to build meaningful multi-property portfolios. We have also focused on markets in relatively close proximity to our headquarters in Denver, Colorado, in order to maximize management efficiencies.

As a result of our focused strategy, we believe that our properties provide office space that is particularly attractive for small to medium size tenants. By executing on our historical business strategy we believe we have been able to maintain high occupancy rates while maximizing rate per square foot as compared to alternative strategies.

Significant Transactions

2006 Transactions

On February 9, 2006, we announced that our Board of Directors had approved the Plan for the Company. The Plan is subject to approval by the Company s stockholders holding a majority of the Company s outstanding shares of common stock. The Company expects to present the Plan to our stockholders for approval at the Company s 2006 annual meeting. (See Plan of Liquidation above for additional information).

On January 24, 2006, the Company sold Keystone Office Park, a 114,980 square foot office property located in Indianapolis, for approximately $9.4 million to a foreign institutional investor. Subsequent to recording an impairment of $1.6 million, the Company recognized a gain of approximately $250,000. Of the $8.6 million in net proceeds received from the sale, the Company used approximately $4.6 million to pay the outstanding mortgage balances and approximately $300,000 to repay the remaining balance due on

the Company s credit facility with KeyBank (Unsecured Credit Facility) leaving the Company with approximately $3.7 million in cash.

On January 23, 2006, the Company sold Financial Plaza, a 310,838 square foot office property located in Phoenix, for $55.0 million to a publicly traded REIT, recording an estimated net gain on the sale of approximately $16 million in the first quarter of 2006. The net cash proceeds of approximately $30 million were used to repay indebtedness under the Unsecured Credit Facility.

On January 23, 2006, the Company completed a loan agreement with its primary bank group which amends its unsecured revolving credit agreement and reinstates a revolving credit facility of up to $10 million to be used for working capital and other limited corporate purposes. The revolver is secured by the Company s Greenhill Park property and matures December 28, 2006. The amendment also modifies certain covenant requirements and collateral provisions and requires the Company to extend the employment agreement with its Chief Executive Officer through the maturity of the loan. There were no borrowings outstanding in this facility on March 15, 2006.

2005 Transactions

Dispositions of Properties:

On December 15, 2005, the Company sold AmeriVest Plaza at Inverness, a 120,171 square foot office property located in southeast Denver for approximately $15.5 million. The Company recognized a gain of approximately $199,000, subsequent to recording an impairment charge of $2.3 million. Net proceeds of $14.6 million were used to pay the first mortgage of $14.2 million, which had a fixed interest rate of 7.9% and a maturity date of January 10, 2006. The remaining $400,000 together with lender reserves released at the time of sale of $380,000 were paid on the Unsecured Credit Facility.

On December 12, 2005, the Company sold Chateau Plaza, a 171,294 square foot office property located in Dallas, Texas, for approximately $31.3 million. A gain of approximately $8.7 million was recorded in conjunction with the transaction. Net proceeds of $29 million were paid on the Company s secured credit facility with KeyBank (Secured Credit Facility). The transaction also effected a $1.8 million escrow release of the $3.1million collateral reserve held by the Secured Facility lenders. Of this amount, $1.6 million was paid on the Secured Credit Facility, paying all outstanding amounts in full; the remaining $200,000 was paid on the Unsecured Credit Facility.

On September 30, 2005, the Company sold its 20% joint venture interest in the Panorama Falls property in Englewood, Colorado to its joint venture partner. The Company was paid in full for the $4.4 million mortgage it held on the property and received a $364,170 promissory note with a six-month term. The Company recognized a net loss of approximately $117,000. Prior to the sale, the Company recorded an impairment charge of approximately $420,000. The net proceeds from the transaction were used to pay approximately $2.2 million on the Secured Credit Facility and $2.2 million on the Unsecured Credit Facility.

On March 3, 2005, the Company completed a Deed-In-Lieu Agreement to return our 13 non-core Texas State Buildings to the lender. The properties, consisting of 222,542 square feet, were leased primarily to various agencies of the State of Texas and are located in Temple, Clint, El Paso, Hempstead, Lubbock, Marshall, Columbus, Paris, Mission, Arlington, Bellville and Amarillo Texas. The buildings secured a loan in the amount of $5.6 million, bearing interest at 7.66% through August 1, 2028 and had a net book value of $5.2 million (excluding certain deposits maintained by the lender), subsequent to an impairment charge of $1.2 million recognized during the fourth quarter of 2004. The Company recognized a loss of approximately $92,000 on the disposition.

Credit Facility Transactions

On March 15, 2005, the Company amended its Secured Credit Facility and Unsecured Credit Facility due to the Company not being in compliance with its leverage, interest coverage and fixed charge coverage covenants required by the Secured Credit Facility. The amendment to the Secured Credit Facility involved: (i) a waiver for the events of non-compliance, noted above, as of December 31, 2004, (ii) changes to the debt covenant calculations to set them at the same levels as those previously established for the Unsecured Credit Facility, (iii) mandatory repayments of at least $2.5 million by July 1, 2005 and at least $10.0 million by September 1, 2005, (iv) removal of the revolving feature of the Secured Credit Facility, and (v) the elimination of the obligation of the lender to make any further loans under the Secured Credit Facility. The amendment to the Unsecured Credit Facility involved: (i) a waiver for the events of non-compliance as of December 31, 2004 due to cross default provisions with the Secured Credit Facility (ii) moving up the maturity date from November 12, 2007 to April 1, 2006, (iii) mandatory repayments of at least $5.0 million by September 2005 and at least $10.0 million by January 2006, (iv) removal of the revolving feature of the Unsecured Credit Facility, (v) a requirement that any further borrowings, including borrowings to pay dividends, be subject to the approval of the lender in its sole and absolute discretion, (vi) a limitation on the incurrence of any other indebtedness by the Company without the prior written consent of the lender and (vii) a requirement that all net proceeds from a property sale, refinancing or other capital transaction be used to pay down any amounts outstanding.

On June 6, 2005, the agreements were further amended to eliminate the July 1 payment on the Secured Credit Facility and extend the maturity date with respect to the Secured Facility from November 12, 2005 to January 31, 2006. On September 1, 2005, the agreements were amended to extend the payment dates from September 1, 2005 to September 14, 2005. On September 14, 2005, the agreements were additionally amended to extend the initial pay down date from September 14, 2005 to January 17, 2006, at which time an aggregate payment of $15 million would be due against the facilities, the maturity date on both the Unsecured and Secured Credit Facilities was extended to April 1, 2006, certain modifications were made to the covenant requirements and collateral provisions, and the Company was required to enter into an employment agreement with Charles Knight, President and CEO. Both the Secured and Unsecured Credit Facilities were entirely paid off by January 24, 2006.

Dividends

On March 9, 2005, the Company s Board of Directors suspended the payment of the common dividend for the first quarter of 2005, and subsequently continued the suspension through all of 2005. As of March 15, 2006, the Board has not reinstated the quarterly common dividend.

Other transactions:

On December 27, 2005, the Company transitioned the on-site property management of its Dallas properties to Transwestern Commercial Services, a national real estate management and leasing company.

On November, 11, 2005, the Company transitioned its on-site property management of its Phoenix properties to Trammell Crow Services, Inc., a national real estate management and leasing company. As part of this transition, Trammell Crow Services assumed approximately six property level positions in Phoenix.

On October 1, 2005, the Company transitioned on-site property management of its Denver properties to Trammell Crow Services, Inc.

Oversight and strategic management of all of the Company s properties continues to be provided by personnel at corporate headquarters.

2004 Transactions

On November 21, 2004, the Company engaged Bear, Stearns & Co., Inc. to assist our Board of Directors in undertaking a review of a broad range of strategic alternatives for the Company. These alternatives include identifying an institutional capital partner to assist in the Company s growth going forward, a sale or recapitalization of all or a portion of the Company s properties, the potential sale or merger of the Company, and other possible transactions designed to enhance stockholder value.

On November 12, 2004, the Company acquired the Hampton Court office building. Hampton Court is located in Dallas, Texas and contains approximately 108,200 square feet. The purchase price for Hampton Court was $16.3 million, which was funded with $8.4 million of cash and the assumption of a $7.9 million non-recourse five-year mortgage loan from a securitized lender.

In October 2004, KeyBank National Association (KeyBank) assumed and amended the Company s unsecured credit facility from Fleet Bank of Boston, increasing the immediate availability from $30 million to $40 million, and modifying other terms. KeyBank also assumed our secured credit facility. All references to the Secured Facility or Unsecured Facility prior to this date pertain to the previous agreement with Fleet.

On October 25, 2004, the Company acquired the 5.2 acres of land underlying its Greenhill Park office property in Addison, Texas for $14.5 million in cash. The Greenhill Park building, purchased by the Company in December 2003, was subject to a ground lease with 80 years remaining on the term.

On September 13, 2004, the Company acquired the Parkway Centre III office building. The Parkway Centre III is located in Plano, Texas and contains approximately 152,600 square feet. The purchase price of $23.4 million was funded with $5.5 million of cash and a $15.2 million non-recourse five-year mortgage. The remaining $2.7 million of acquisition funds came from tax-deferred exchange proceeds from the disposition of our Texas Bank Buildings in March 2004.

On May 7, 2004, the Company acquired the Hackberry View office property located in Irving, Texas and contains approximately 114,600 square feet. The purchase price was $16.8 million, which was paid with approximately $12.2 million from the assumption of the existing first and second mortgage loans and the balance in cash.

On March 16, 2004, the Company acquired the Camelback Lakes office building. Camelback Lakes is located in Phoenix, Arizona and contains approximately 203,000 square feet on 12.04 acres of land. The purchase price for Camelback Lakes was $32.0 million, which was paid with $21.0 million from our Secured Credit Facility and the balance from our Unsecured Credit Facility. In August 2004, the Company refinanced the property with $21.0 million of debt. The debt consists of two notes maturing in September 2014.

On March 16, 2004, the Company sold its Texas Bank Buildings for $4.1 million. The four properties are located in Clifton, Georgetown, Henderson and Mineral Wells, Texas, contain an aggregate of 60,095 square feet and had an aggregate net book value of approximately $3.2 million at disposition.

2003 Transactions

On December 4, 2003, the Company acquired the Greenhill Park office building. Greenhill Park is located in Addison, Texas and contains approximately 252,000 square feet. Greenhill Park was subject to a ground lease. See 2004 Transactions for a discussion of the purchase of the land. The purchase price for Greenhill Park was $10.5 million, which was paid with $5.3 million from the Secured Credit Facility and the balance in cash from a portion of the proceeds from our 2003 public offering.

On October 7, 2003, the Company acquired the Scottsdale Norte office building. Scottsdale Norte is located in Scottsdale, Arizona and contains approximately 79,000 square feet on 5.45 acres of land. The purchase price for Scottsdale Norte was $12.3 million, which was paid with $6.6 million from the assumption of the existing loan from Southern Farm Bureau Life Insurance Company and the balance in cash from a portion of the proceeds from our 2003 public offering.

On September 10, 2003, the Company acquired the Financial Plaza office building. Financial Plaza is located in Mesa, Arizona and contains approximately 311,000 square feet on approximately 6.07 acres of land. The purchase price for Financial Plaza was $39.0 million, which was paid with $24.8 million from the assumption of the existing loan from Allstate Life Insurance Company and the balance in cash from a portion of the proceeds from our 2003 public offering.

During 2003, the Company completed the construction of an approximately 18,000 square foot building adjacent to the existing Keystone Office Park in Indianapolis, Indiana for approximately $1.3 million. This building was constructed to accommodate the expansion needs of some of the existing tenants as well as market demand. The building opened for occupancy in August.

On February 6, 2003, the Company acquired the Southwest Gas office building. The Southwest Gas Building is located in Phoenix, Arizona and contains approximately 148,000 square feet on 7.38 acres of land. The purchase price for the Southwest Gas Building was $17.0 million, which was paid with $11.9 million from the Secured Credit Facility and the balance from a short-term loan from Fleet National Bank. This short-term loan was refinanced with the Unsecured Credit Facility.

2002 Transactions

On November 25, 2002, the Company acquired the Chateau Plaza office building. Chateau Plaza is located in Dallas, Texas and contains approximately 171,000 square feet on one acre of land. The purchase price for Chateau Plaza was $22.0 million, which was paid with $15.4 million from the Secured Fleet and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

On November 12, 2002, the Company acquired the Centerra office building. Centerra is located in Denver, Colorado and contains approximately 186,000 square feet on 1.15 acres of land. The purchase price for Centerra was $18.7 million, which was paid with $13.1 million from the Secured Facility and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

On September 6, 2002, the Company acquired 2.55 acres of undeveloped land, adjacent to Keystone Office Park in Indianapolis, Indiana, from Sheridan Realty Partners, L.P., an affiliate, for $320,000. The purchase price was determined based on the fair market value of the land and was paid through the issuance of 52,893 shares of our common stock ($6.05 per share). In late 2002, the Company commenced construction of an approximately 18,000 square foot building on this land.

On September 5, 2002, the Company acquired the Parkway Centre II office building. Parkway Centre II is located in Plano, Texas and contains approximately 152,000 square feet on 6.4 acres of land. The purchase price for Parkway Centre II was $22.0 million which was paid with $17.0 million from the assumption of the existing loan from J.P. Morgan Chase Commercial Mortgage Securities Corp. and the balance paid in cash from a portion of the proceeds from our 2002 public offering.

2001 Transactions

On December 21, 2001, the Company acquired the Kellogg Building. The Kellogg Building is located in Littleton, Colorado and contains approximately 112,000 square feet on five acres of land. The purchase price for the Kellogg Building was $13.6 million, which was paid with $9.5 million from the proceeds of a loan from US Bank National Association and the balance paid in cash from a portion of the proceeds from our 2001 public offering.

On December 6, 2001, the Company sold an 80% tenancy-in-common interest in the Panorama Falls building to a long-term investor affiliated with a large shareholder. Panorama Falls is located in Englewood, Colorado and contains approximately 60,000 square feet on six acres of land. The sales price for the interest in Panorama Falls was $4.9 million payable as follows: (i) $2.2 million to KeyBank National Association to pay down a portion of the mortgage loan, (ii) assumption of 80% of the remaining mortgage loan in the amount of $2.4 million, and (iii) the remainder of $304,268 in cash, less closing costs.

On November 19, 2001, the Company acquired the Arrowhead Fountains office building. Arrowhead Fountains is located in Peoria, Arizona and contains approximately 96,000 square feet on five acres of land. The purchase price for Arrowhead Fountains was $12.8 million, which was paid with $9.3 million from the assumption of the existing loan from Nationwide Life Insurance Company and the balance paid in cash from a portion of the proceeds from our 2001 public offering.

On October 23, 2001, the Company sold its office building in Odessa, Texas for $132,500. The sale resulted in a gain on sale of $12,747.

On June 1, 2001, the Company sold the Giltedge office building in Appleton, Wisconsin for $3.7 million. The sale resulted in a gain on sale of approximately $1.1 million. The cash proceeds from this transaction of $458,030 were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code.

On April 1, 2001, the Company acquired from Sheridan Investments, LLC, an affiliate, 100% of the ownership interests of Sheridan Plaza at Inverness, LLC. Sheridan Plaza at Inverness, LLC owns two office buildings (which are known as AmeriVest Plaza at Inverness) located in Englewood, Colorado containing approximately 119,000 square feet on 6.7 acres of land. The purchase price was $22.9 million and consisted of: (i) $705,135 for our 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC; (ii) $6.5 million paid with 1,057,346 shares of our common stock and the cash proceeds from the sale of the Giltedge building; (iii) assumption of the mortgage loan in the amount of $15.0 million; and (iv) assumption of other liabilities in the amount of $761,178.

The acquisition was structured as a tax-deferred exchange of the Giltedge office building under Section 1031 of the Internal Revenue Code. Due to the related party nature of this transaction, accounting principles generally accepted in the United States require us to record this acquisition at its historical net book value. The difference between the purchase price and the historical net book value was $4,507,557 and was recorded as a non-cash dividend during 2001.

Competition

The leasing of real estate is highly competitive. We compete for tenants in our markets primarily on the basis of property location, rents, services provided and the design and condition of improvements. In addition, we also experience competition when attempting to acquire or divest ownership in real estate, including competition from larger and better capitalized domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, partnerships and individual investors. All of our buildings are located in developed areas that include other commercial properties. This competition could limit our ability to lease our properties, increase or maintain rental rates, or secure attractive investment opportunities.

Employees

We currently employ 11 full-time and 1 part-time individuals that provide real estate operations, leasing, financial and accounting, acquisition, disposition and marketing expertise. We consider our relationship with our employees to be good.

Environmental Matters

Under various federal, state and local laws and regulations, an owner or operator of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on that property. These laws often impose such liability regardless of whether the owner caused or knew of the presence of hazardous or toxic substances and regardless of whether the storage of those substances was in violation of a tenant s lease. Furthermore, the costs of remediation or removal of those substances may be substantial, and the presence of hazardous or toxic substances, or the failure to promptly remediate those substances, may adversely affect the owner s ability to sell the property or to borrow money using the property as collateral. In connection with the ownership and operation of the properties, we may be potentially liable for such costs.

We obtained an environmental assessment of each of our properties upon acquisition. These environmental assessments did not reveal any environmental conditions that management believes will subject us to material liability. In addition, we have not been, nor do we have knowledge that any of the previous owners of the properties have been, notified by any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental substances in connection with any of the properties. Although we have obtained environmental assessments of the properties, and although we are not aware of any notifications by any governmental authority of any material noncompliance, it is possible that our assessments do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.

After the acquisition of the Sheridan Center buildings in Denver in 2000, we embarked on an asbestos remediation program in accordance with applicable federal and state requirements, using licensed contractors to remove, wherever accessible or otherwise required, asbestos-containing materials in the buildings, including ceiling tiles, drywall joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. Most of the remediation has been completed, except for one building, which we expect to be completed over the next few years as tenants vacate spaces, allowing access to the asbestos materials. Management has prepared an analysis of remaining costs to complete the remediation of the Sheridan Center buildings and does not believe the total liability would be material in nature. During 2005, the Company received a $450,000 settlement from the engineering firm that had done the initial environmental report on the Sheridan Center buildings. This money was a reimbursement of remediation costs already incurred by the Company and, as such, was recorded as a reduction to the basis of the Sheridan Center buildings.

Additional Information and Code of Ethics

Our website is http://www.AMVproperties.com. We make available free of charge, on or through our web site, our annual, quarterly, and current reports, as well as any amendments to these reports, as soon as reasonably practicable after electronically filing these reports with the Securities and Exchange Commission. The reference to our web site does not incorporate by reference the information contained in the web site and such information should not be considered a part of this report. We have adopted a code of ethics and business conduct applicable to our Board and officers and employees. A copy of our code of ethics and business conduct is available through our web site. In addition, copies of the code of ethics and business conduct can be obtained, free of charge, upon written request to Investor Relations, 1780 South Bellaire Street, Suite 100, Denver, Colorado 80222. Any amendments to, or waivers of, our code of ethics and business conduct that apply to any matters enumerated in Item 406(b) of Regulation S-K will be disclosed on our web site. Any reference to our web site in this annual report does not incorporate by reference the information contained in the web site and such information should not be considered part of the annual reports.

ITEM 1A. RISK FACTORS

Risks Related to Historical Business

Our access to capital may be extremely limited and may affect our ability to execute our business plan.

Subsequent to December 31, 2005, the Company s existing Secured and Unsecured Credit Facilities were paid in full. As a result, the Secured Credit Facility was terminated and the Unsecured Credit Facility was amended to a $10 million credit facility that will mature on December 28, 2006. The amended facility is secured by the Greenhill Office Park property in Dallas, Texas. Should the Company need funds in excess of the $10 million facility or subsequent to the maturity date, we could be limited in our ability to fund tenant improvements or make other necessary or desirable portfolio capital expenditures or pay dividends unless we have sold additional properties. Due to the Company seeking to effect a corporate sale transaction or receive approval for the Plan, our ability to raise equity or refinance properties would be unlikely. In addition, we would be dependent upon cash flow from our operations to cover capital expenditures and our corporate operating expenses. As a result, should a corporate sale not be completed nor the Plan be adopted or if under the Plan the projected sales are not completed at expected prices, our limited access to capital could have a material adverse effect on our financial condition and our operations.

Our decision to actively pursue a plan of liquidation may result in unanticipated costs and distract management.

On November 22, 2004, we announced that our Board of Directors would undertake a review of a broad range of strategic alternatives for the company, including the identification of an institutional capital partner to assist in the company s growth going forward, a sale or recapitalization of all or a portion of the company s properties, the potential sale or merger of the company and other possible transactions designed to enhance shareholder value. On February 9, 2006, it was announced that the Board of Directors had adopted the Plan, subject to stockholder approval.

As a result of our pursuit of potential buyers for our properties, we face considerable operational uncertainty. This uncertainty may disrupt our business operations and may result in the loss of business opportunities we would otherwise pursue. Our management team may be distracted from the day-to-day operations of our business as a result of this uncertainty and some members of management may decide to leave their employment.

Our variable rate debt subjects us to interest rate risk.

At December 31, 2005, our Unsecured Credit Facility with an outstanding balance of approximately $29.9 million, or 16%, of our total debt was at variable rates of 350 basis points over LIBOR. The weighted-average interest rate on this variable rate debt was approximately 6.9% at December 31, 2005. This debt was to mature in April 2006. The Unsecured Credit Facility was paid in full in January 2006 and amended to provide for a $10 million credit facility at LIBOR plus 250 basis points, secured by an office property in a submarket of Dallas. (see Future Sources of Capital for information on the amended facility). Increases in interest rates could increase our interest expense, which would adversely affect net earnings and cash available for payment of our debt obligations and distributions to our stockholders.

We face a competitive market, which could limit our ability to lease our properties or secure attractive investment opportunities.

Our historical business strategy had contemplated expansion through acquisition. The commercial real estate industry is highly competitive, and we compete with substantially larger companies, including substantially larger REITs, for the acquisition, development and operation of properties. Some of these companies are national or regional operators with far greater resources than we have. As a result, we have suspended acquisition activity for the Company and should we not complete a corporate sales transaction or receive approval for the Plan, we may not have the opportunity to make suitable investments on favorable terms in the future. Competition in a particular area also could adversely affect our ability to lease our properties or to increase or maintain rental rates. The presence of these competitors may impede the continuation and development of our business, causing lower occupancy rates and lower values obtainable under the planned sales of the properties included in the Plan.

We may not be able to pay dividends to our stockholders regularly and distributions under the Plan may be lower than estimated.

Our ability to pay dividends in the future depends on our ability to operate profitably and to generate cash from our operations in excess of debt service obligations and required capital expenditures. Historically, because we have had to finance our growth, we have not been able to generate sufficient cash from our operations to cover all these obligations and have had to fund certain capital expenditures from external sources, including borrowings and equity offerings. The payment of dividends is in the sole discretion of our Board of Directors. During 2005, we suspended all dividend payments. Under the Plan, the Company has estimated liquidating distributions of $4.20 to $4.80, payable six to twenty-four months subsequent to the potential approval of the Plan by a majority of common stockholders. This estimated distribution range is based on numerous assumptions, notably including the sales price of assets for which no definitive sale agreements or letters of intent are currently in place. Although management and the Board of Directors believe our assumptions are reasonable and have solicited and received input from various outside investment and real estate brokers, the assumptions may prove to be inaccurate and the ultimate amount of liquidating distributions to stockholders may be reduced or delayed.

Our debt level may have a negative impact on our income and our ability to pay dividends.

We have incurred indebtedness in connection with the acquisition of our properties, and we may incur new indebtedness in the future in connection with our operating activities. At December 31, 2005, we had approximately $185.8 million of long-term indebtedness including properties deemed held-for-sale, of which approximately $44.1 million in the aggregate is due in 2006 and 2007. Of the amounts due at December 31, 2005, $58.2 million was paid in conjunction with property sales closed in January 2006, including $29.9 million that was due in 2006. As a result of our use of debt, we are subject to the risks normally associated with debt financing, including:

- that our cash flow will be insufficient to make required payments of principal and interest;
- that we will be unable to refinance some or all of our indebtedness or that any refinancing will not be on terms as favorable as those of the existing indebtedness;
- that required payments on mortgages and on our other indebtedness are not reduced if the economic performance of any property declines;
- that debt service obligations will reduce funds available for distribution to our stockholders; and
- that any default on our indebtedness could result in acceleration of those obligations.

If the economic performance of any of our properties declines, our ability to make debt service payments would be adversely affected. If a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, we may lose that property to lender foreclosure with a consequent loss of income and asset value. Should any of the individual properties be sold under the Plan at a sales price less than the outstanding mortgage due on that property, funds for repayment would have to drawn from proceeds from other sales transactions and would reduce liquidating distributions to stockholders.

We do not have a policy limiting the amount of debt that we may incur; however, as of December 31, 2005, our Unsecured Credit Facility limited our total liabilities to 70% of gross assets, as calculated in accordance with the loan agreement. This limitation was reduced to 65% under the amended loan agreement signed in January 2006. Our total liabilities to gross asset value at December 31, 2005 was 63%. Our total liabilities to total market capitalization ratio was approximately 67% at December 31, 2005. Our leverage levels and our current strategic alternative review process (including but not limited to the liquidation of properties) may make it difficult to obtain any additional financing based on our current portfolio or to refinance existing debt on favorable terms or at all. Our leverage levels also may adversely affect the market value of our stock if we are perceived as more risky than our peers.

Some of our buildings are subject to special income tax considerations, which could result in substantial tax liability upon their sale.

If we sell any of our Sheridan Center buildings before 2006 (ten years after the original acquisition date of the property or the property exchanged for that property), we will be required to pay tax at the highest applicable corporate rate on the excess of the buildings fair market value at the effective time of our REIT election over its adjusted basis at such time (or, if lesser, the excess of the fair market value of the building at the time of the sale over its adjusted basis at the time of the sale). Given our current estimate of fair market value, we do not expect to face any adverse tax consequences because of the built-in gain limitations with respect to Sheridan Center.

New developments and acquisitions may fail to perform as we expect.

Over the last few years, we have focused our efforts on the acquisition and redevelopment of multi-tenant office buildings. In deciding whether to acquire or develop a particular property, we made

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assumptions regarding the expected future performance of that property. In particular, we estimated the return on our investment based on expected occupancy and rental rates. If the property is unable to achieve the expected occupancy and rental rates, it may fail to perform as we expected in analyzing our investment. When we acquire a property, we often reposition or redevelop that property with the goal of increasing profitability. Our estimate of the costs of repositioning or redeveloping an acquired property may prove inaccurate, which may result in our failure to meet our profitability goals. If one or more of these properties do not perform as initially expected, our financial performance may be adversely affected.

Construction risks could adversely affect our profitability.

We continue to invest in necessary improvements and maintenance capital in our existing properties. Our construction activities may subject us to the following risks:

- We may be unable to obtain, or suffer delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased costs or our abandonment of these projects.

- We may incur construction costs for a property that exceed our original estimates due to increased costs for materials or labor or other costs, such as asbestos or mold abatement, which we did not anticipate.

- We may not be able to obtain financing on favorable terms, which may make us unable to proceed with our development activities.

- We may be unable to complete construction and lease-up of a property on schedule, which could result in increased debt service expense or construction costs.

Additionally, the time frame required for lease-up of these properties means that we may have to wait years for a significant cash return. Because we are required to make cash distributions to our stockholders to maintain our REIT tax status, if the cash flow from operations or refinancing is not sufficient, we may be forced to borrow additional money to fund such distributions.

Real estate investments are inherently risky, which could adversely affect our profitability and our ability to make distributions to our stockholders.

Real estate investments are subject to varying degrees of risk. If we own properties that do not generate sufficient operating cash flow to meet operating expenses, including debt service, capital expenditures and tenant improvements, our income and ability to pay dividends to our stockholders is adversely affected. Income from properties may be adversely affected by:

- decreases in rent and/or occupancy rates due to competition, economic or other factors;

- increases in operating costs such as real estate taxes, insurance premiums, site maintenance and utilities;

- changes in interest rates and the availability of financing; and

- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Future terrorist attacks in the United States and international hostilities may result in declining economic activity, which could reduce the demand for and the value of our properties.

Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, whether in the United States or abroad, may result in declining economic activity and reduced demand for our properties. A decrease in

demand would make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss. We have obtained insurance coverage with respect to some of these risks. We cannot predict whether such coverage will actually cover such risks or whether the risks for which we obtained insurance will actually occur. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor obligations under their existing leases.

These types of events also may adversely affect the markets in which our securities trade. These acts may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for real estate, delay the time in which our new or renovated properties reach stable occupancy, increase our operating expenses due to increased physical security and insurance costs for our properties and limit our access to capital or increase our cost of raising capital.

General economic conditions may adversely affect our financial condition, results of operations and potential distributions under the Plan.

Periods of economic slowdown or recession in the United States and in other countries, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults by our tenants under existing leases, which would adversely affect our financial position, results of operations and cash flow, as well as the trading price of our securities and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

Unfavorable changes in local market and economic conditions could hurt occupancy or rental rates.

At December 31, 2005, our properties were located in metropolitan Denver, Dallas, Phoenix and Indianapolis. Economic conditions in our local markets can significantly affect occupancy and rental rates. Occupancy and rental rates, in turn, may significantly affect our profitability and our ability to satisfy our financial obligations. The economic condition of our local markets may depend on one or more industries and, therefore, an economic downturn in one of these industry sectors may adversely affect our performance in that market. Local real estate market conditions may include a large supply of competing space, and we compete for tenants based on rental rates, attractiveness and location of a property, and quality of maintenance and management services. Changes in market conditions could affect the timing and prices received for the properties sold under the Plan.

We are subject to the credit risk of our tenants, which could result in lease payments not being made and a significant decrease in our revenues.

Many of our tenants are small companies with nominal net worth. We cannot assure you that our tenants will not default on their leases and fail to make rental payments to us. In particular, local economic conditions and factors affecting the industries in which our tenants operate may affect our tenants ability to make lease payments to us. Moreover, we may be unable to locate a replacement tenant in a timely manner or on comparable or better terms if a tenant defaults on its lease. The loss of rental revenues from a number of our tenants may adversely affect our profitability and our ability to meet our financial obligations.

We may be unable to renew leases or re-lease space on a timely basis or on comparable or better terms, which could significantly decrease our revenues.

A significant number of leases on our properties (excluding the two properties sold in January 2006), representing approximately 16% of our annualized lease revenue, expire on or before December 31, 2006. Current tenants may elect not to renew their leases upon the expiration of their terms. Alternatively, current tenants may attempt to terminate their leases prior to the expiration of their current terms. Many of our leases are for relatively short terms of a few years. If non-renewals or terminations occur, we may not be able to locate a qualified replacement tenant and, as a result, we would lose a source of revenue while remaining responsible for the payment of our obligations. Moreover, the terms of a renewal or new lease may be less favorable than current lease terms. This may cause affected properties to be impaired and/or to be sold for prices less than currently estimated under the Plan.

Loss of a significant tenant could lead to a substantial decrease in our cash flow and an impairment of the value of our real estate.

Although we target tenants seeking 2,000 to 4,000 square feet of office space, we may have several significant tenants from time to time, the loss of any of which could adversely affect our cash flow and may cause affected properties to be impaired.

Our uninsured and underinsured losses could result in loss of value of our properties.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods, that may be uninsurable or not economically insurable, as to which our facilities are at risk in their particular locations. Our management uses its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to obtaining appropriate insurance on our investments at a reasonable cost and on suitable terms. These decisions may result in our having insurance coverage that, in the event of a substantial loss, would not be sufficient to repay us for the full current market value or current replacement cost. Also, due to inflation, changes in codes and ordinances, environmental considerations, and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed.

The success of our company depends on the continuing contributions of our key personnel.

We have a highly skilled management team and specialized workforce managing our property operations. Although we have employment agreements in place with our CEO only through December 31, 2006 and with our CFO only through May 31, 2006, we also have in place retention agreements with other employees. Notwithstanding these agreements, any executive officer or key employee may terminate his or her relationship with us at any time.

There is limited liquidity in our real estate investments, which could limit our flexibility.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in economic and other conditions will be limited. We may not be able to dispose of an investment when we find disposition advantageous or necessary, and the sales price of any disposition may not recoup or exceed the amount of our investment. With respect to any liquidating distribution, we expect to continue to qualify as a REIT and be entitled to a dividends paid deduction. In order to qualify as a liquidating distribution, the distribution must be made within a twenty-four month period after the adoption of the Plan. We may not be able to liquidate our entire portfolio within this time period, and may have to create on behalf of our shareholders a liquidating trust for properties not sold within the given time frame. Liquidating distributions are subject to special tax rules.

We may suffer environmental liabilities that could result in substantial costs.

Under various environmental laws, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances, including asbestos-containing materials and mold, that are located on or under the property. These laws often impose liability whether the owner or operator knew of, or was responsible for, the presence of those substances. In connection with our ownership and operation of properties, we may be liable for these costs, which could be substantial. Also, our ability to arrange for financing secured by that real property might be adversely affected because of the presence of hazardous or toxic substances or the failure to properly remediate any contamination. In addition, we may be subject to claims by third parties based on damages and costs resulting from environmental contamination at or emanating from our properties.

After the acquisition of the Sheridan Center buildings, we embarked on an asbestos remediation program in accordance with applicable federal and state requirements, using licensed contractors to remove, wherever accessible or otherwise required, asbestos-containing materials in the buildings, including ceiling tiles, drywall joint compound, wood and metal fire doors, wall texture, mudded pipe elbows and valves, thermal systems insulation, floor tile and mastic and boiler insulation. Most of the remediation has been completed, except for one building that is expected to be completed over the next few years as tenants vacate spaces, allowing access to the asbestos materials.

Non-compliance with the Americans with Disabilities Act could result in compliance costs and fines.

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations are required to meet certain federal requirements related to physical access and use by disabled persons. While we believe we are in compliance with the ADA requirements, a determination that we are not in compliance with the ADA could require capital expenditures to remove access barriers and non-compliance could result in the imposition of fines or an award of damages to private litigants. If we were required to make modifications to comply with the ADA or other governmental rules and regulations, our ability to make expected distributions to our stockholders could be adversely affected.

The ability of our stockholders to control our policies or effect a change in control of our company is limited, which may not be in our stockholders best interests.

Charter and Bylaws Provisions. Some provisions of our charter and bylaws may delay or prevent a change in control of our company or other transactions that could provide our stockholders with a premium over the then-prevailing market price of our common or preferred stock or that might otherwise be in the best interests of our stockholders. These provisions include:

- *Two-thirds stockholder vote required to approve some amendments to the charter.* Some amendments to our charter must be approved by the affirmative vote of stockholders holding at least 66⅔% of the outstanding shares of our common stock, voting together as a single class. These voting requirements may make amendments to our charter that stockholders believe desirable more difficult to effect.

- *Issuance of preferred stock without stockholder approval.* Our Board of Directors has the ability to authorize the issuance of preferred stock without stockholder approval and to set or change the designation, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption of the preferred stock. Our Board of Directors could therefore authorize series of preferred stock that may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of our stockholders.

- *Ownership Limitation.* In order to assist us in maintaining our qualification as a REIT, our Articles of Incorporation contain provisions generally limiting the ownership of shares of our capital stock by any single stockholder to 9% of our outstanding shares, unless waived by our Board of Directors. These provisions could also delay or prevent an acquisition or change in control of our company that could benefit our stockholders.

Maryland Business Statutes. As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions can occur. These provisions of Maryland law may have the effect of discouraging offers to acquire us even if the acquisition would be advantageous to our stockholders. These provisions include:

- *Unsolicited takeover provisions.* Maryland law provides that the Board of Directors of a Maryland corporation is not subject to higher duties with regard to actions taken in a takeover context. These provisions may make it more difficult to effect an unsolicited takeover of a Maryland corporation. Maryland law also allows publicly held corporations with at least three independent directors to elect to be governed, without shareholder approval, by all or any part of Maryland law provisions relating to extraordinary actions and unsolicited takeovers.

- *Business combination with interested stockholders.* The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares and other specified transactions, with an interested stockholder or its affiliates, for five years after the most recent date on which the interested stockholder became an interested stockholder and thereafter unless specified criteria are met.

Control share acquisition. The Maryland Control Shares Acquisition Act provides that shares acquired by any person over one-tenth, one-third and a majority of the voting power of a corporation do not have voting rights, except to the extent approved by the vote of two-thirds of the shares of common stock entitled to be cast on the matter.

Other constituencies. Maryland law expressly authorizes a Maryland corporation to include in its charter a provision that allows the Board of Directors to consider the effect of a potential acquisition of control on stockholders, employees, suppliers, customers, creditors and communities in which offices or other establishments of the corporation are located. Our current charter does not include a provision of this type. Maryland law also provides, however, that the inclusion or omission of this type of provision in the charter of a Maryland corporation does not create an inference concerning factors that may be considered by the Board of Directors regarding a potential acquisition of control. This law may allow our Board of Directors to reject an acquisition proposal even though the proposal is in the best interests of our stockholders.

Other Maryland laws. Maryland law also permits the Board of Directors, without stockholder approval, and even if contrary to a company s bylaws or charter, to classify the Board of Directors, require a two-thirds vote for the removal of directors and give the Board of Directors sole power to fill Board vacancies occurring for any reason.

There is a limited market for our common stock, which could hinder the ability of our stockholders to sell our shares.

Historically, there has been limited trading volume for our common stock and, in the event that we issue preferred stock, there may be a limited trading volume for our preferred stock. Our equity market capitalization places us at the low end of market capitalization among all REITs. We cannot assure you that the market for our securities will remain at current levels or expand. Due to our limited trading

volume and small market capitalization, many investors may not be interested in owning our securities because of the inability to acquire or sell a substantial block of our stock at one time. This illiquidity could have an adverse effect on the market price of our securities. In addition, a stockholder may not be able to borrow funds using our securities as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market. Any substantial sale of our securities could have a material adverse effect on the market price of our securities.

We may incur tax liabilities if we fail to qualify as a REIT.

We believe that we have been organized and operated so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended, since our taxable year ended December 31, 1996. However, we cannot assure you that we will continue to be qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions may significantly change the requirements for qualification as a REIT or the federal income tax consequences of that qualification.

In order to qualify as a REIT, at all times during the second half of each taxable year following our first taxable year, no more than 50% in value of our shares may be owned, directly or indirectly and by applying constructive ownership rules, by five or fewer individuals, including some tax-exempt entities. Our Articles of Incorporation provide restrictions regarding the transfer of shares, including a 9% limitation on the ownership of our shares by any stockholder, that are intended to assist us in continuing to satisfy this share ownership requirement.

If we were unable to qualify as a REIT in any taxable year, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax on our taxable income at regular corporate rates and possibly to the alternative minimum tax. Unless we are entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification was lost. As a result, the funds available for distribution to our stockholders would be reduced for each of the years involved. In addition, we may have to incur substantial indebtedness or may have to liquidate substantial investments in order to pay the resulting federal income tax liabilities if differences in timing exist between the receipt of income and payment of our tax obligations. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to revoke our REIT election.

We may have to borrow money to make required distributions to our stockholders.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of 85% of our ordinary income for that year plus 95% of our capital gain net income for that year plus any undistributed taxable income from prior periods. On March 9, 2005, we suspended our dividend payment. Our Board will review and consider the resumption of a dividend on our common stock based on a number of factors, including the adoption of the Plan, completion of a strategic transaction or other significant capital event, such as a refinancing or asset sales, the Company s financial results, capital resources and liquidity needs at that time. We have determined that in 2005, we will generate a taxable loss and do not need to make a distribution of our REIT taxable income. However if we should generate REIT taxable income, we intend to make distributions to our stockholders to comply

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with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. We may have to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax if differences in timing between taxable income and cash available for distribution exist. As noted above, we may not be able to borrow these funds. Additionally, any such borrowings may not be at favorable interest rates.

Adverse legislative or regulatory tax changes may affect the tax treatment of us or our stockholders.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect our company or you, as a shareholder. For example, on May 28, 2003, the President signed into law tax legislation that reduced the federal tax rate on both dividends and long-term capital gains for individuals to 15% through 2008. Because REITs generally are not subject to corporate income tax, this reduced tax rate generally does not apply to ordinary REIT dividends, which continue to be taxed at the higher tax rates applicable to ordinary income. The 15% tax rate applies to:

- long-term capital gains recognized on the disposition of REIT shares;
- REIT capital gain distributions (except to the extent attributable to real estate depreciation, in which case such distributions continue to be subject to a 25% tax rate);
- REIT dividends attributable to dividends received by a REIT from non-REIT corporations, such as taxable REIT subsidiaries; and
- REIT dividends attributable to income that was subject to corporate income tax at the REIT level (e.g., to the extent that a REIT distributes less than 100% of its taxable income).

This law could be causing shares in non-REIT corporations to be a relatively more attractive investment to individual investors than shares in REITs. The legislation also could be having an adverse effect on the market price of our securities.

Risks Related to Plan of Liquidation

We do not know the exact amount or timing of liquidation distributions.

We cannot assure you of the precise nature and amount of any distributions to our stockholders pursuant to the Plan. Furthermore, the timing of our distributions will be affected, in large part, by our ability to sell in a timely and orderly manner our remaining assets.

The methods used by management in estimating the values of our assets (other than cash and cash equivalents) and liabilities are based on estimates which are inexact and may not approximate values actually realized or the actual costs incurred. Our board of directors assessment assumes that the estimates of our assets, liabilities, construction and operating costs, and sale prices of our remaining assets are accurate, but those estimates are subject to numerous uncertainties beyond our control, including any new contingent liabilities that may materialize and other matters discussed below. In addition, our board of directors has relied on (i) management s estimates as to the value of our company s properties, other assets, costs and operating expenses, and (ii) Bear Stearns mathematical compilations and computations of such estimates and has not obtained or sought an appraisal of any of the properties that it proposes to liquidate. For all of these reasons, the actual net proceeds distributed to stockholders in liquidation may be more or less than the estimated amounts.

We have estimated the range of distributions based upon management s estimates of the values of the assets after considering, among other factors, internally prepared budgets, projections and models, comparable sales figures, and values ascribed to certain assets during discussions with bidders and brokers for our company. Bear Stearns assisted us by helping to develop financial models and providing

sophisticated analyses of these models. There can be no assurance that we will be able to find buyers for all the remaining assets, and if we are able to sell such assets, there can be no guaranty that the value received upon such sale will be consistent with management s estimates.

If our stockholders approve the Plan, potential purchasers of our assets may try to take advantage of our liquidation process and offer less-than-optimal prices for our assets. We intend to seek and obtain the highest sales prices reasonably available for our assets, and believe that we can out-wait bargain-hunters; however, we cannot predict how changes in local real estate markets or in the national economy may affect the prices that we can obtain in the liquidation process. Therefore, there can be no assurance that the announcement and approval of the Plan will not hinder management s ability to obtain the best price possible in the liquidation of our assets.

We currently estimate that an aggregate of between $101.3 million and $115.8 million may be available for distribution to holders of our shares of common stock under the Plan, which would result in a total distribution of between $4.20 and $4.80 per share of common stock. The actual amount available for distribution could be more or less or could be delayed, depending on a number of other factors including (i) unknown liabilities or claims, (ii) unexpected or greater or lesser than expected expenses, and (iii) greater or lesser than anticipated net proceeds of asset sales.

Although we anticipate making an initial distribution of substantially all of the net proceeds from the sale of our properties, interim and final distributions will depend on the amount of proceeds we receive, when we receive them, and the extent to which we must establish reserves for current or future liabilities. In addition, although we expect that a distribution of substantially all of the remaining amount will be made to stockholders within two years following the adoption of the Plan by our stockholders, the actual time of distribution may be longer in the event that we have difficulties disposing of our assets or if a creditor seeks the intervention of the Maryland courts to enjoin dissolution.

We are currently unable to predict the precise timing of any distributions pursuant to the Plan. The timing of any distribution will depend upon and could be delayed by, among other things, the timing of the sale of our company s assets. Additionally, a creditor could seek an injunction against our making distributions to our stockholders on the ground that the amounts to be distributed were needed for the payment of the liabilities and expenses. Any action of this type could delay or substantially diminish the amount, if any, available for distribution to our stockholders.

Valuations of our real estate assets are subject to general risks associated with real estate assets and within the real estate industry.

The value of our real estate assets and consequently the value of your investment, is subject to certain risks applicable to our assets and inherent in the real estate industry. The following factors, among others, may adversely affect the value of our real estate assets:

- downturns in the national, regional and local economic climate where our properties are located;
- downturn in general economic conditions as well as a downturn in specific regional and local market conditions;
- competition from other commercial real estate entities;
- local real estate market conditions, such as oversupply of, or reduction in demand for, leasing of commercial real estate;
- decreases in rent and/or occupancy rates due to competition, economic or other factors;
- increases in operating costs such as real estate taxes, insurance premiums, site maintenance and utilities;

- changes in interest rates and the availability of financing; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

We face potential risks with asset sales.

Risks associated with the sale of properties which, if they materialize, may have a material adverse effect on amounts you may receive, include:

- lack of demand by prospective buyers;
- inability to find qualified buyers;
- inability of buyers to obtain satisfactory financing;
- lower than anticipated sale prices; and
- the inability to close on sales of properties under contract.

Our stockholders could vote against the Plan.

Our stockholders could vote against the Plan. If our stockholders do not approve the Plan, we would have to continue our business operations from a difficult position, in light of the announced intent to liquidate and dissolve. Employees, customers and other third parties may refuse to continue to conduct business with us if they are uncertain as to our future, particularly with respect to long-term relationships that would be advantageous to the conduct of our business as a going concern. In addition, our company will have to continue operations while being faced with the same strategic issues it considered in determining to adopt the Plan.

If we are unable to satisfy all of our obligations to creditors, or if we have underestimated our future expenses, the amount of liquidation proceeds will be reduced.

We have current and future obligations to creditors. Claims, liabilities and expenses from operations (such as operating costs, salaries, directors and officers insurance, payroll and local taxes, legal, accounting and consulting fees and miscellaneous office expenses) will continue to be incurred through the liquidation process. As part of this process, we will attempt to satisfy any obligations with creditors remaining after the sale of our assets. These expenses will reduce the amount of assets available for ultimate distribution to our stockholders. To the extent our liabilities exceed the estimates that we have made, the amount of liquidation proceeds will be reduced.

Stockholders may be liable to our creditors for amounts received from us if our reserves are inadequate.

If the Plan is approved by the stockholders, we intend to file Articles of Dissolution with the State Department of Assessments and Taxation of Maryland promptly after the sale of all our remaining assets or at such time as our directors have transferred our company s remaining assets, subject to its liabilities, into a liquidating trust. Pursuant to Maryland law, our company will continue to exist for the purpose of discharging any debts or obligations, collecting and distributing its assets, and doing all other acts required to liquidate and wind up its business and affairs. We intend to pay for all liabilities and distribute all of our remaining assets before we file our Articles of Dissolution.

Under Maryland law, certain obligations or liabilities imposed by law on our stockholders, directors, or officers cannot be avoided by the dissolution of a company. For example, if we make distributions to our stockholders without making adequate provisions for payment of creditors claims, our stockholders would be liable to the creditors to the extent of the unlawful distributions. The liability of any stockholder is, however, limited to the amounts previously received by such stockholder from us (and from any liquidating

trust). Accordingly, in such event, a stockholder could be required to return all liquidating distributions previously made to such stockholder and a stockholder could receive nothing from us under the Plan. Moreover, in the event a stockholder has paid taxes on amounts previously received as a liquidation distribution, a repayment of all or a portion of such amount could result in a stockholder incurring a net tax cost if the stockholder s repayment of an amount previously distributed does not cause a commensurate reduction in taxes payable. Therefore, to the extent that we have underestimated the size of our contingency reserve and distributions to our stockholders have already been made, our stockholders may be required to return some or all of such distributions.

You will not be able to buy or sell our shares of common stock after we file our Articles of Dissolution.

If the stockholders approve the Plan, we intend to close our transfer books on the date on which we file Articles of Dissolution with the State Department of Assessments and Taxation of Maryland (the Final Record Date). We anticipate that the Final Record Date will be shortly after the sale of all of our assets or such earlier time as when our board of directors transfers all of our remaining assets into a liquidating trust. The Final Record Date is likely to be 6 to 24 months after the approval of the Plan by our stockholders. Your interests in a liquidating trust are likely to be non-transferable except in certain limited circumstances. After the Final Record Date, we will not record any further transfers of our shares of common stock except pursuant to the provisions of a deceased stockholder s will, intestate succession or operation of law and we will not issue any new stock certificates other than replacement certificates or certificates representing your interest in a liquidating trust. In addition, after the Final Record Date, we will not issue any shares of common stock upon exercise of outstanding options. It is anticipated that no further transfers of our shares of common stock will occur after the Final Record Date.

Our success depends on key personnel whose continued service is not guaranteed.

We have a highly skilled management team and specialized workforce managing our properties. Although we entered into employment and change of control agreements with our chief executive officer and chief financial officer, and retention agreements with other key employees, any executive officer or key employee may terminate his or her relationship with us at any time. The employment agreement with our chief executive officer expires December 31, 2006 and the employment agreement with our chief financial officer expires May 31, 2006 Although we intend to complete our sale of our properties before the expiration of our chief executive officer s employment agreement, our business operations and ability to complete the Plan in a timely manner and sell our assets for the estimated proceeds could be negatively impacted if we are unable to retain the services of other key personnel or hire suitable replacements.

Our chief executive officer and chief financial officer have conflicts of interest.

The employment agreements of each of our chief executive officer and chief financial officer contain provisions that entitle the officer to certain benefits and payments if that officer terminates that employment agreement following a change of control (as defined in his employment agreements and which definition includes adoption of a Plan as a change of control). Accordingly, if the stockholders approve the Plan and either officer elects to terminate employment with our company, that officer would be entitled to severance payments. Consequently, those officers may have been influenced by the potential severance payments to support, or in the case of the chief executive officer who is also a director, to vote to approve, the Plan.

Liquidation and dissolution may not maximize value for our stockholders.

Although our board of directors believes that the Plan is more likely to result in greater returns to stockholders than if we continued the status quo or pursued other alternatives, it is possible that one or more of the other alternatives would be better for us and our stockholders, in which case, we will be foregoing such alternatives if we implement the Plan.

Approval of the Plan may reduce our stock price, increase its volatility and reduce the liquidity of our shares.

If our stockholders approve the Plan, but believe that we will be unable to complete the Plan in a timely manner, the price of our shares of common stock may decline. In addition, as we sell our assets, pay off our liabilities and make liquidating distributions to stockholders, our stock price will likely decline and our shares of common stock will likely become less liquid.

In addition, our shares of common stock may no longer be eligible for listing on the American Stock Exchange as a result of adopting the Plan, thus reducing liquidity of the shares of common stock. Being delisted by the American Stock Exchange would further decrease the market demand and liquidity for, and price of, our shares of common stock. The policy of the American Stock Exchange is to consider delisting a company if, among other reasons:

- the total number of public stockholders is less than 300;
- if the aggregate market value of shares publicly held is less than $1 million; or
- if liquidation has been authorized by a company s board of directors and stockholders.

Furthermore, in the event that our board of directors elects to transfer our company s remaining assets into a liquidating trust, the trust certificates to be issued to each stockholder will not be transferable except in certain very limited circumstances, such as upon death of the holder.

Approval of the Plan may lead to stockholder litigation which could result in substantial costs and distract management.

Historically, extraordinary corporation actions, such as the proposed Plan, often lead to securities class action lawsuits being filed against a company. Such litigation is likely to be expensive and, even if we ultimately prevail, the process will be time consuming and divert management s attention from implementing the Plan of liquidation and otherwise operating our business. If we do not prevail in any such lawsuit, we may be liable for damages, the validity of a stockholder vote approving the Plan may be challenged, or we may be unable to complete some transactions that we contemplate as part of the Plan. We cannot predict the cost of defense or the amount of such damages but they may be significant and would likely reduce our cash available for distribution.

Approval of the Plan could cause our methodology of accounting to change, which may require us to reduce the net carrying value of our assets.

Once our stockholders approve the proposed Plan, we could change our basis of accounting from the going-concern basis to that of the liquidation basis of accounting.

In order for our financial statements to be in accordance with generally accepted accounting principles under the liquidation basis of accounting, all of our assets must be stated at their estimated net realizable value, and all of our liabilities (including those related to commitments under employment agreements) must be recorded at the estimated amounts at which the liabilities are expected to be settled. Based on the most recent available information, if the Plan is adopted, we expect to make liquidating distributions that exceed the carrying amount of our net assets. However, we cannot assure you what the ultimate amounts of such liquidating distributions will be. Therefore, there is a risk that the liquidation basis of accounting may entail write downs of certain of our assets to values substantially less than their current respective carrying amounts, and may require that certain of our liabilities be increased or certain other liabilities be recorded to reflect the anticipated effects of an orderly liquidation.

Until we determine that the Plan is about to be approved, we will continue to use the going-concern basis of accounting. If our stockholders do not approve the Plan, we will continue to account for our assets

and liabilities under the going-concern basis of accounting. Under the going-concern basis, assets and liabilities are expected to be realized in the normal course of business. However, long-lived assets to be sold or disposed of should be reported at the lower of carrying amount or estimated fair value less costs to sell. For long-lived assets to be held and used, when a change in circumstances occurs, our management must assess whether we can recover the carrying amounts of our long-lived assets. If our management determines that based on all of the available information, we cannot recover those carrying amounts, an impairment of value of our long-lived assets has occurred and the assets would be written down to their estimated fair value.

Our management believes that the carrying amounts of our long-lived assets at March 15, 2006, had not been impaired, other than to the extent of amounts already recorded in prior accounting periods. We may, however, be required to make write downs of our assets in the future based on estimated net realizable value of our assets at that time. Such write downs could reduce our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2005 fiscal year and that remain unresolved.

ITEM 2. PROPERTIES

At December 31, 2005, we owned and operated 14 office properties which included an aggregate of 2,159,679 square feet located in metropolitan Denver, Dallas, Phoenix and Indianapolis. In January 2006, the Company sold the Keystone property in Indianapolis and Financial Plaza in Phoenix, which aggregated 424,751 square feet.

The following table provides certain information about each of our office properties at December 31, 2005:

			December 31, 2005		**December 31, 2004**	
Building / Location	**Year Acquired**	**Rentable Area(1)**	**Occupancy Rate(2)**	**Average Rent Per SF(3)**	**Occupancy Rate(4)**	**Average Rent Per SF(3)**
Same Store						
Sheridan Center Denver, CO	2000	139,561	79.7 %	$ 15.95	82.0 %	$ 15.94
Arrowhead Fountains Peoria, AZ	2001	96,203	100.0 %	22.08	100.0 %	21.85
Kellogg Building Littleton, CO	2001	110,940	95.1 %	19.56	93.0 %	19.56
Parkway Centre II Plano, TX	2002	151,880	85.5 %	19.61	94.8 %	19.01
Centerra Denver, CO	2002	187,562	84.2 %	17.36	85.2 %	18.09
Southwest Gas Building Phoenix, AZ	2003	144,821	90.3 %	23.08	87.1 %	22.64
Scottsdale Norte Scottsdale, AZ	2003	78,800	100.0 %	22.76	94.4 %	22.74
Greenhill Park Addison, TX	2003	247,269	86.5 %	17.41	77.0 %	17.71
Camelback Lakes Phoenix, AZ	2004	202,720	100.0 %	23.78	98.9 %	21.97
Hackberry View Irving, TX	2004	114,598	95.7 %	21.01	100.0 %	19.78
Parkway Centre III Plano, TX	2004	152,391	91.2 %	20.61	93.8 %	20.94
Hampton Court Dallas, TX	2004	108,183	98.0 %	21.46	100.0 %	21.13
	Subtotal	1,734,928	91.2 %	20.26	90.8 %	19.97
Held-for-Sale						
Keystone Office Park(5) Indianapolis, IN	1999/2003	114,980	79.1 %	17.35	76.8 %	17.69
Financial Plaza(5) Mesa, AZ	2003	309,771	90.8 %	23.59	83.0 %	23.51
	Subtotal	424,751	87.7 %	21.82	81.3 %	22.03
Disposed of Properties						
AmeriVest Plaza at Inverness(6) Englewood, CO	2001	n/a	n/a	n/a	93.9 %	21.03
Chateau Plaza(6) Dallas, TX	2002	n/a	n/a	n/a	99.5 %	23.42
Panorama Falls JV(7) Englewood, CO	2000	n/a	n/a	n/a	64.8 %	19.84
Texas State Buildings(8) Texas	1997/1998	n/a	n/a	n/a	77.1 %	9.06
	Subtotal	n/a	n/a	n/a	86.0 %	17.59
	Total	2,159,679	90.5 %	$ 20.61	88.3 %	$ 19.78

(Footnotes for table on previous page.)

(1) Includes office space but excludes storage, telecommunications and garage space.

(2) Includes approximately 37,000 square feet (1.7% of total rentable area) that has been leased but is not yet occupied and approximately 20,000 square feet (0.9% of total rentable area) that is leased but has been vacated.

(3) Annualized cash basis revenue divided by leased area.

(4) Includes approximately 73,000 square feet (2.7% of total rentable area) that has been leased but is not yet occupied and approximately 28,000 square feet (1.0% of total rentable area) that is leased but has been vacated.

(5) This building was sold in January 2006.

(6) This building was sold in December 2005.

(7) AmeriVest sold its 20% interest in the property in September 2005.

(8) On March 2, 2005, the Company completed a Deed-in-Lieu Agreement to return these properties to the lender.

The following tables show the geographic distribution of our properties by square footage at December 31, 2005:

	Held-for-Sale Properties Included in Regions Square Feet	% of Total	Held-for-Sale Properties Excluded from Regions Square Feet	% of Total
Phoenix	832,315	38.5 %	522,544	24.2 %
Dallas	774,321	35.9 %	774,321	35.9 %
Denver	438,063	20.3 %	438,063	20.3 %
Indianapolis	114,980	5.3 %		
Held-for-Sale			424,751	19.6 %
Total	2,159,679	100.0 %	2,159,679	100.0 %

The following table categorizes the area leased of our properties, including held-for-sale, by our tenant s industry at December 31, 2005:

Industry	Percentage of Area
Real estate	11.5 %