KOGER EQUITY INC
Form 10-Q
November 13, 2001

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SECURITIES and EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2001** or

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

For the transition period from ___________ to ___________

Commission File Number **1-9997**

KOGER EQUITY, INC.
(Exact name of registrant as specified in its charter)

FLORIDA	**59-2898045**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)	

433 PLAZA REAL, SUITE 335	
BOCA RATON, FLORIDA	**33432**
(Address of principal executive offices) (Zip Code)	

Registrant s telephone number, including area code: **(561) 395-9666**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2001
Common Stock, $.01 par value	26,811,299 shares

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KOGER EQUITY, INC. AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS REPORT

To the Board of Directors and Shareholders of
Koger Equity, Inc.
Jacksonville, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Koger Equity, Inc. and subsidiaries (the Company) as of September 30, 2001 and the related condensed consolidated statements of operations for the three and nine month periods ended September 30, 2001 and 2000, the condensed consolidated statement of changes in shareholders equity for the nine month period ended September 30, 2001 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the condensed consolidated financial statements, the Company has entered into an agreement to sell 3.9 million of rentable square feet to AREIF Realty Trust, an affiliate of Apollo Real Estate Advisors, L.P., a significant shareholder.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2000, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 23, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Certified Public Accountants

West Palm Beach, Florida
October 26, 2001

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PART I . FINANCIAL INFORMATION

Item 1. Financial Statements

KOGER EQUITY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited See Independent Accountants Report)
(In thousands)

	September 30, 2001	December 31, 2000
ASSETS		
Real Estate Investments:		
Operating properties:		
Land	$140,448	$138,214
Buildings	831,406	805,935
Furniture and equipment	3,228	2,631
Accumulated depreciation	(180,983)	(155,817)
Operating properties net	794,099	790,963
Properties under construction:		
Land		2,128
Buildings		12,023
Undeveloped land held for investment	13,899	13,899
Undeveloped land held for sale, net of allowance	76	76
Cash and cash equivalents	9,140	1,615
Accounts receivable, net of allowance for uncollectible accounts of $787 and $584	12,338	13,232
Investment in Koger Realty Services, Inc.		2,533

Cost in excess of fair value of net assets acquired, net of accumulated amortization of $1,323 and $1,195	1,232	1,360
Other assets	13,997	13,193
TOTAL ASSETS	$844,781	$851,022
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgages and loans payable	$337,879	$343,287
Accounts payable	3,090	4,961
Accrued real estate taxes payable	9,491	4,175
Accrued liabilities other	8,969	10,562
Dividends payable	9,381	9,392
Advance rents and security deposits	6,489	7,014
Total Liabilities	375,299	379,391
Minority interest	23,132	23,138

Shareholders equity:		
Common stock	296	296
Capital in excess of par value	469,010	468,277
Notes receivable from stock sales	(5,066)	(6,250)
Retained earnings	17,460	20,261
Treasury stock, at cost	(35,350)	(34,091)
Total Shareholders Equity	446,350	448,493
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$844,781	$851,022

See Notes to Unaudited Condensed Consolidated Financial Statements.

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KOGER EQUITY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited   See Independent Accountants   Report)
(In thousands, except per share data)

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2001	**2000**	**2001**	**2000**
REVENUES				
Rental and other rental services	$42,243	$40,750	$125,462	$124,287
Management fees	1,074	604	3,530	1,255
Interest	154	229	596	478
Income from Koger Realty Services, Inc.		191	81	352
Total revenues	43,471	41,774	129,669	126,372
EXPENSES				
Property operations	15,591	16,267	46,749	47,964
Depreciation and amortization	9,844	8,760	27,834	25,886
Mortgage and loan interest	6,316	6,882	19,379	20,559
General and administrative	2,276	2,001	6,148	16,088
Direct cost of management fees				

	798	309	2,658	607
Other	60	55	171	191
Total expenses	34,885	34,274	102,939	111,295
INCOME BEFORE GAIN ON SALE OR DISPOSITION OF ASSETS, INCOME TAXES AND MINORITY INTEREST	8,586	7,500	26,730	15,077
Gain on sale or disposition of assets		2,033		6,437
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	8,586	9,533	26,730	21,514
Income taxes	257	(174)	449	(19)
INCOME BEFORE MINORITY INTEREST				

	8,329	9,707	26,281	21,533
Minority interest	323	361	937	992
NET INCOME	$8,006	$9,346	$25,344	$20,541
EARNINGS PER SHARE:				
Basic	$0.30	$0.35	$0.94	$0.77
Diluted	$0.30	$0.35	$0.94	$0.76
WEIGHTED AVERAGE SHARES:				
Basic	26,865	26,710	26,872	26,707

Diluted	26,912	26,920	26,888	26,991

See Notes to Unaudited Condensed Consolidated Financial Statements.

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KOGER EQUITY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited See Independent Accountants Report)
(In thousands)

	Common Stock			Notes			
	Shares Issued	Par Value	Capital in Excess of Par Value	Receivable from Stock Sales	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2000	29,559	$296	$468,277	$(6,250)	$20,261	$(34,091)	$448,493
Common stock sold			94			105	199
Stock loan repayments				1,184		(1,364)	(180)
Options exercised	48		639				639
Dividends declared					(28,145)		(28,145)
Net Income					25,344		25,344
Balance, September 30, 2001	29,607	$296	$469,010	$(5,066)	$17,460	$(35,350)	$446,350

See Notes to Unaudited Condensed Consolidated Financial Statements.

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KOGER EQUITY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited See Independent Accountants Report)
(In thousands)

	Nine Month Period Ended September 30,	
	2001	**2000**
OPERATING ACTIVITIES		
Net income	$25,344	$20,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,834	25,886
Income from Koger Realty Services, Inc.	(81)	(352)
Provision for uncollectible accounts	1,108	622
Minority interest	937	992
Gain on sale or disposition of assets		(6,437)
Changes in assets and liabilities:		
Increase (decrease) in accounts payable, accrued liabilities and other liabilities	395	(3,014)
Increase in receivables and other assets	(1,305)	(891)
Net cash provided by operating activities	54,232	37,347
INVESTING ACTIVITIES		

Property acquisitions		(10)
Building and land construction expenditures	(2,025)	(12,075)
Tenant improvements to first generation space	(3,734)	(3,361)
Tenant improvements to existing properties	(4,979)	(7,108)
Building improvements	(3,086)	(2,834)
Energy management improvements	(197)	(196)
Deferred tenant costs	(1,568)	(2,495)
Additions to furniture and equipment	(147)	(270)
Dividends received from Koger Realty Services, Inc.		355
Cash acquired in purchase of assets from KRSI	2,535	
Proceeds from sale of assets	15	49,743
Net cash provided by (used in) investing activities	(13,186)	21,749

FINANCING ACTIVITIES

Collection of notes receivable from stock sales	174	
Proceeds from exercise of stock options	634	7,454
Proceeds from sales of common stock	199	2,057
Proceeds from mortgages and loans	32,500	68,783
Dividends paid	(28,156)	(28,043)

Distributions paid to minority interest holders	(943)	(901)
Treasury stock purchased		(20,428)
Principal payments on mortgages and loans	(37,908)	(83,906)
Financing costs	(21)	(16)
Net cash used in financing activities	(33,521)	(55,000)
Net increase in cash and cash equivalents	7,525	4,096
Cash and cash equivalents beginning of period	1,615	
Cash and cash equivalents end of period	$9,140	$4,096

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for interest, net of amount capitalized	$19,543	$20,717

Cash paid during the period for income taxes	$252	$155

See Notes to Unaudited Condensed Consolidated Financial Statements.

KOGER EQUITY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS
ENDED SEPTEMBER 30, 2001 AND 2000
(Unaudited See Independent Accountants Report)

1. BASIS OF PRESENTATION. The condensed consolidated financial statements include the accounts of Koger Equity, Inc., its wholly-owned subsidiaries and Koger Vanguard Partners, L.P. (the Company). All material intercompany transactions and accounts have been eliminated in consolidation. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission related to interim financial statements.

During January 2001, Koger Equity, Inc. organized KRSI Merger, Inc., a Florida corporation, as a wholly owned taxable subsidiary. Effective February 1, 2001, Koger Realty Services, Inc. (KRSI), a Delaware corporation, was merged into this new subsidiary (the Merger). Pursuant to the Merger, the common stock of KRSI was repurchased at the formula price set forth in KRSI s Articles of Incorporation. Subsequent to the Merger, the name of the new Florida subsidiary was changed to Koger Realty Services, Inc. This merger was accounted for using the purchase method of accounting resulting in a reduction in the cost basis of assets of approximately $143,000. Prior to the Merger, the Company accounted for its investment in the preferred stock of KRSI using the equity method.

The financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000, included in the Company s Form 10-K Annual Report for the year ended December 31, 2000. The accompanying balance sheet at December 31, 2000, has been derived from the audited financial statements at that date and is condensed.

All adjustments of a normal recurring nature which, in the opinion of management, are necessary to present a fair statement of the results for the interim periods have been made. Results of operations for the nine month period ended September 30, 2001, are not necessarily indicative of the results to be expected for the full year.

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangible Assets. These Statements make significant changes to the accounting for business combinations, goodwill, and intangible assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations with limited exceptions for combinations initiated prior to July 1, 2001. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. This statement is effective for business combinations completed after June 30, 2001.

SFAS No. 142 discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review for impairment. Impairment would be examined more frequently if certain indicators are encountered. Intangible assets with a determinable useful life will continue to be amortized over that period. The amortization provisions apply to goodwill and intangible assets acquired after September 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Goodwill and intangible assets on the books at September 30, 2001 will be affected when the Company adopts the Statement effective January 1, 2002.

The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

2. ORGANIZATION. Koger Equity, Inc. (KE), a Florida corporation, was incorporated in 1988 for the purpose of investing in the ownership of income producing properties, primarily commercial office buildings. KE is self-administered and self-managed. Koger-Vanguard Partners, L.P. (KVP) is a Delaware limited partnership, for which KE is the general partner. Koger Equity s common stock is listed on the New York Stock exchange under the ticker symbol KE.

In addition to managing its own properties, the Company provides property management services to certain third parties. The Company currently provides asset management services to Crocker Realty Trust for office properties containing approximately 4,802,000 rentable square feet. Crocker Realty Trust is in the process of selling this portfolio.

3. **FEDERAL INCOME TAXES**. KE is operated in a manner so as to qualify, and has elected tax treatment, as a real estate investment trust under the Internal Revenue Code (a REIT). As a REIT, KE is required to distribute annually at least 90 percent of its taxable income to its shareholders. Since KE had no REIT taxable income during 2000 and does not expect to have REIT taxable income during 2001, no provision has been made for Federal income taxes. To the extent that KE pays dividends equal to 100 percent of taxable income, the earnings of KE are not taxed at the corporate level. KE has a net operating loss carryforward which totals approximately $2,481,000, which may be used to reduce REIT taxable income. However, the use of net operating loss carryforwards are limited for alternative minimum tax purposes. KE has recorded a provision of $150,000 for alternative minimum tax for the nine months ended September 30, 2001. Koger Realty Services, Inc. has recorded a provision of $241,000 for Federal income tax for the nine months ended September 30, 2001.

4. **STATEMENTS OF CASH FLOWS**. Cash in excess of daily requirements is invested in short-term monetary securities. Such temporary cash investments have an original maturity date of less than three months and are deemed to be cash equivalents for purposes of the statements of cash flows. During the nine month period ended September 30, 2001, the Company received 86,779 shares of its common stock as settlement of $1,364,000 of notes receivables from former employees ($1,010,000 of which were Notes Receivable from Stock Sales). Pursuant to the Merger, the Company acquired the net assets of KRSI in exchange for its preferred stock in KRSI. The net assets of KRSI acquired consisted of (i) cash in the amount of $2,535,000, (ii) other assets with a fair value of $1,016,000 and (iii) liabilities assumed with a fair value of $937,000. During the nine month period ended September 30, 2000, the Company contributed 15,557 shares of common stock to the Company s 401(k) Plan. These shares had a value of approximately $262,000 based on the closing price of the Company s common stock on the American Stock Exchange on December 31, 1999.

5. **EARNINGS PER COMMON SHARE**. Basic earnings per common share has been computed based on the weighted average number of shares of common stock outstanding for each period. Diluted earnings per common share is similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares (options) had been issued. The treasury stock method is used to calculate dilutive shares which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised.

6. **MORTGAGES AND LOANS PAYABLE**. At September 30, 2001, the Company had $337,879,000 of loans outstanding, which are collateralized by mortgages on certain operating properties. Annual maturities for mortgages and loans payable are as follows (in thousands):

Year Ending December 31,	
2001	$89,568
2002	12,720
2003	5,235
2004	5,672
2005	6,148
Subsequent Years	218,536
Total	$337,879

The Company s secured revolving credit facility will mature in December 2001. At September 30, 2001, the outstanding balance of this credit facility was $88 million. The Company plans to extend or replace this credit facility.

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7. DIVIDENDS. The Company paid the following dividends during the nine months ended September 30, 2001:

Payment Date	Record Date	Dividends Per Share
February 1, 2001	December 31, 2000	$0.35
May 3, 2001	March 31, 2001	$0.35
August 2, 2001	June 30, 2001	$0.35

During the quarter ended September 30, 2001, the Company s Board of Directors declared a quarterly dividend of $0.35 per share payable on November 1, 2001, to shareholders of record on September 30, 2001. The Company currently expects that all dividends paid during 2001 will be treated as ordinary income to the recipient for income tax purposes.

8. AGREEMENT TO SELL PROPERTIES. On August 23, 2001, the Company entered into an agreement to sell select non-core assets to AREIF Realty Trust, Inc. (AREIF), an affiliate of Apollo Real Estate Advisors, LP. Included in the sale are ten properties comprising 75 suburban office buildings and one retail center located throughout San Antonio and Austin, Texas; Greensboro and Charlotte, North Carolina; Greenville, South Carolina; and Birmingham, Alabama. The portfolio, which contains more than 3.9 million rentable square feet, will be purchased by AREIF for consideration including $208.3 million cash, the exchange of AREIF s 5.73 million common share interest in the Company and a membership interest in the AREIF subsidiary entity acquiring the assets. The membership interest will provide the Company with a 20 percent participation in the net cash flow from the disposed assets after AREIF has received a 15 percent internal rate of return on its equity investment. Currently, the Company expects this transaction to close during December 2001.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and related notes appearing elsewhere in this Form 10-Q, and the Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the period ended December 31, 2000.

RESULTS OF OPERATIONS.

Rental and other rental services revenues totaled $42,243,000 for the quarter ended September 30, 2001, compared to $40,750,000 for the quarter ended September 30, 2000. This increase in rental revenues resulted primarily from (i) increases in the Company s average rental rate and (ii) increases in rental revenues ($2,504,000) from nine buildings constructed by the Company. The effect of these increases was partially offset by the loss of rental revenues ($503,000) caused by the sale of two office parks during 2000 and the decrease in the Company s average occupancy. At September 30, 2001, the Company s buildings were on average 88 percent leased with an average rental rate of $18.68 per usable square foot ($16.58 per rentable square foot). At September 30, 2000, the Company s buildings were on average 92 percent leased with an average rental rate of $16.81 per usable square foot. Rental and other rental services revenues totaled $125,462,000 for the nine month period ended September 30, 2001, compared to $124,287,000 during the same period last year. This increase resulted primarily from (i) increases in the Company s average rental rate and (ii) increases in rental revenues ($6,521,000) from the nine buildings constructed by the Company. The effect of these increases was partially offset by the loss of rental revenues ($5,143,000) caused by the sale of office parks as described above and the decrease in the Company s average occupancy.

Management fee revenues totaled $1,074,000 for the quarter ended September 30, 2001, compared to $604,000 for the quarter ended September 30, 2000. This increase was due primarily to (i) the merger of KRSI into a wholly owned taxable subsidiary of the Company on February 1, 2001 and (ii) the fees earned from Crocker Realty Trust ($138,000). Management fee revenues increased to $3,530,000 during the nine month period ended September 30, 2001, compared to $1,255,000 during the same period last year, due to (i) the merger previously described and (ii) the fees earned from Crocker Realty Trust ($397,000).

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Income from Koger Realty Services, Inc. decreased by $191,000 and $271,000, respectively, during the three and nine month periods ended September 30, 2001, compared to the same periods last year, due to the Merger.

Property operations expense includes charges for utilities, real estate taxes, janitorial, maintenance, property insurance, provision for uncollectible rents and management costs. The amount of property operations expense and its percentage of total rental revenues for the applicable periods are as follows:

Period		Amount	Percent of Total Rental Revenues
September 30, 2001	Quarter	$15,591,000	36.9%
September 30, 2000	Quarter	16,267,000	39.9%
September 30, 2001	Nine Months	46,749,000	37.3%
September 30, 2000	Nine Months	47,964,000	38.6%

Property operations expense decreased primarily due to the decline in property operations expense ($319,000 and $2,195,000, respectively, for the three and nine month periods ended September 30, 2001) caused by the sale of two office parks during 2000 and the reduction in costs to manage the Company s properties. The effect of these decreases was partially offset by (i) increased accruals to provision for uncollectible accounts and (ii) increases in property operations expense ($218,000 and $1,061,000, respectively, for the three and nine month periods ended September 30, 2001) for the nine buildings constructed by the Company.

Depreciation expense has been calculated on the straight-line method based upon the useful lives of the Company s depreciable assets, generally 3 to 40 years. Depreciation expense increased $981,000 and $1,703,000, respectively, for the three and nine month periods ended September 30, 2001, compared to the same periods last year, due to (i) the construction completed during 2000 and 2001 and (ii) tenant and building improvements incurred after September 30, 2000. Amortization expense increased $103,000 and $245,000 respectively, for the three and nine month periods ended September 30, 2001, compared to the same periods last year, due primarily to deferred tenant costs incurred after September 30, 2000.

Interest expense decreased by $566,000 and $1,180,000, respectively, during the three and nine month periods ended September 30, 2001, compared to the same periods last year, primarily due to decreases in the average balance of mortgages and loans payable and in the weighted average interest rate on the secured revolving credit facility. At September 30, 2001 and 2000, the weighted average interest rate on the Company s outstanding debt was approximately 7.19 percent and 8.04 percent, respectively.

General and administrative expenses for the three month periods ended September 30, 2001 and 2000, totaled $2,276,000 and $2,001,000, respectively. This increase is primarily due to an increase in legal and other professional fees. General and administrative expenses for the nine month periods ended September 30, 2001 and 2000, totaled $6,148,000 and $16,088,000, respectively. This decrease is primarily due to certain non-recurring charges incurred during 2000 for (i) costs of a corporate reorganization ($6,832,000), (ii) severance payments made to certain former senior executives ($2,562,000), (iii) changes in termination benefits under the supplemental executive retirement plan ($584,000), (iv) payments to retiring directors ($138,000) and (v) initial fees for listing on the New York Stock Exchange ($161,000).

Direct costs of management contracts increased $489,000 for the three month period ended September 30, 2001, compared to the same period last year, due primarily to the merger of KRSI into a wholly owned taxable subsidiary of the Company on February 1, 2001. Compared to the prior year, direct costs of management contracts increased $2,051,000 for the nine months ended September 30, 2001. This increase was primarily due to the merger previously described.

Net income totaled $8,006,000 for the quarter ended September 30, 2001, compared to $9,346,000 for the corresponding period of 2000. This decrease is due primarily to (i) the decrease in gain on sale or disposition and assets and (ii) the increases in depreciation and amortization expense and income tax expense. These items were partially offset by (i) the increase in rental and other rental services revenues and (ii) the decreases in property operations expense and interest expense. Net income increased $4,803,000 during the nine month period ended September 30, 2001, compared to the same period last year. This increase is due primarily to (i) the increase in rental and other rental services revenues and (ii) decreases in general and administrative expenses, property operations expense and interest expense. These items were partially offset by (i) the decrease in gain on sale or disposition of assets and (ii) the increases in depreciation and amortization expense and income tax expense.

LIQUIDITY AND CAPITAL RESOURCES.

Operating Activities During the nine months ended September 30, 2001, the Company generated approximately $54.2 million in net cash from operating activities. The Company s primary internal sources of cash are (i) the collection of rents from buildings owned by the Company and (ii) the receipt of management fees paid to the Company in respect of properties managed on behalf of Koala Realty Holding Co., Inc. (Koala) and Crocker Realty Trust. As a REIT for Federal income tax purposes, the Company is required to pay out annually, as dividends, 90 percent of its taxable income (which, due to non-cash charges, including depreciation and net operating loss carryforwards, may be substantially less than cash flows). In the past, the Company has paid out dividends in amounts at least equal to its taxable income. The Company believes that its cash provided by operating activities will be sufficient to cover debt service payments and to pay the dividends required to maintain REIT status through 2001.

The level of cash flow generated by rents depends primarily on the occupancy rates of the Company s buildings and changes in rental rates on new and renewed leases and from escalation provisions in existing leases. At September 30, 2001, leases representing approximately 7.2 percent of the gross annualized rent from the Company s properties, without regard to the exercise of options to renew, were due to expire during the remainder of 2001. This represents 218 leases for space in buildings located in 19 of the 23 centers or locations in which the Company owns buildings. Certain of these tenants may not renew their leases or may reduce their demand for space. During the nine months ended September 30, 2001, leases were renewed on approximately 68 percent of the Company s rentable square feet, which were scheduled to expire during the nine month period. For those leases which were renewed, the average rental rate increased from $14.97 to $15.72, an increase of 5.0 percent. Based upon the number of leases which will expire during 2001 and 2002 and the competition for tenants in the markets in which the Company operates, the Company has and expects to continue to offer incentives to certain new and renewal tenants. These incentives may include the payment of tenant improvement costs and in certain markets reduced rents during initial lease periods.

The Company has benefited from existing economic conditions and stable vacancy levels for office buildings in many of the metropolitan areas in which the Company owns buildings. The Company believes that the southeastern and southwestern regions of the United States offer excellent growth potential due to their diverse regional economies, expanding metropolitan areas, skilled work force and moderate labor costs. However, the Company cannot predict whether such economic growth will continue and the Company is currently experiencing slower growth in the markets in which it owns buildings. Cash flow from operations could be reduced if economic growth were not to continue in the Company s markets and if this resulted in lower occupancy and rental rates for the Company s buildings.

Governmental tenants (including the State of Florida and the United States Government) which account for approximately 19.1 percent of the Company s leased space at September 30, 2001, may be subject to budget reductions in times of recession and governmental austerity measures. Consequently, there can be no assurance that governmental appropriations for rents may not be reduced. Additionally, certain of the Company s private sector tenants may reduce their need for office space in the future.

During May 2001, the agreement with Koala to manage 15 office buildings located in Tampa, Florida was terminated when the properties were sold by Koala. The Company earned fees of $307,000 and incurred costs of $224,000 for the management of

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these properties during the nine months ended September 30, 2001. Effective September 1, 2001, the agreement for Koger Realty Services, Inc. to manage the remaining 55 office buildings owned by Koala was terminated. The Company earned fees of $2,784,000 and incurred costs of $2,141,000 for the management of these properties during the nine months ended September 30, 2001. Koger Realty Services, Inc. currently has no agreements to manage third party owned properties.

Investing Activities At September 30, 2001, substantially all of the Company s invested assets were in real properties. Improvements to the Company s existing properties have been financed through internal operations. During the nine month period ended September 30, 2001, the Company s expenditures for improvements to existing properties decreased $1,876,000 from the corresponding period of the prior year. This decrease was due to the reduction in expenditures for tenant improvements primarily caused by (i) the sale of two office parks during 2000 and (ii) the lower leasing activity of second generation space during the first nine months of 2001 compared to 2000.

Financing Activities The Company has a $150 million secured revolving credit facility, with variable interest rates, ($88 million of which was outstanding on September 30, 2001 at a weighted average interest rate of 4.78 percent) provided by First Union National Bank of Florida, AmSouth Bank, N.A., Citizens Bank of Rhode Island, Compass Bank and Guaranty Federal Bank.

Loan maturities and normal amortization of mortgages and loans payable are expected to total approximately $101 million over the next 12 months. The Company s secured revolving credit facility will mature in December 2001. This credit facility will either be extended or replaced. The Company has filed shelf registration statements with respect to the possible issuance of up to $300 million of its common and/or preferred stock and the Company has issued $91.6 million of its common stock under such registration statements in prior years. At September 30, 2001, the Company had 20 office buildings, containing approximately 1.8 million rentable square feet, which were unencumbered.

The foregoing discussion contains forward-looking statements concerning 2001. The actual results of operations for 2001 could differ materially from those projected because of factors affecting the financial markets, reactions of the Company s existing and prospective investors, the ability of the Company to identify and execute development projects and acquisition opportunities, the ability of the Company to renew and enter into new leases on favorable terms, and other risk factors. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Statement Relevant to Forward-Looking Information for Purpose of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 in the Company s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. The Company currently has a $150 million secured revolving credit facility with variable interest rates. The Company may incur additional variable rate debt in the future to meet its financing needs. Increases in interest rates on such debt could increase the Company s interest expense, which would adversely affect the Company s cash flow and the amount of distributions to its shareholders. The Company has not entered into any interest rate hedge contracts to mitigate this interest rate risk. As of September 30, 2001, the Company had $88 million outstanding under the secured revolving credit facility. If the weighted average interest rate on this variable rate debt changes 100 basis points higher or lower, annual interest expense would be increased or decreased by approximately $880,000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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Item 5. Other Information

(a) The following table sets forth, with respect to each Koger Center or location at September 30, 2001, gross square feet, rentable square feet, percentage leased, and the average annual rent per rentable square foot leased.

Koger Center/Location	Gross Square Feet	Rentable Square Feet	Percent Leased(1)	Average Annual Rent Per Square Foot(2)
Atlanta Chamblee	1,199,800	1,112,194	90%	$ 18.07
Atlanta Gwinnett (3)	274,400	261,484	76%	18.97
Atlanta Perimeter	184,000	176,503	93%	20.74
Austin (5)	458,400	440,666	97%	20.80
Birmingham Colonnade (3)(5)	471,200	451,994	89%	16.59
Birmingham Colonnade Retail (5)	112,600	112,186	70%	12.46(4)
Charlotte Carmel (5)	339,200	322,842	91%	17.71
Charlotte University	190,600	182,852	100%	18.06
Charlotte Vanguard	548,200	525,615	89%	15.99
Greensboro South (5)	749,200	692,463	72%	14.44
Greensboro Wendover (5)	98,300	89,986	72%	17.72
Greenville Park Central (5)	161,700	158,971	85%	16.87
Greenville Roper Mt. (5)	431,000	402,656	83%	15.89
Jacksonville Baymeadows	793,400	748,351	95%	12.04(4)
Jacksonville JTB	436,000	416,773	100%	12.91(4)
Memphis Germantown (3)	562,600	526,874	86%	18.22
Orlando Central	699,700	614,902	97%	15.61
Orlando Lake Mary	318,000	303,481	97%	19.96
Orlando University (3)	405,200	380,289	90%	17.96
Richmond Paragon	154,300	145,008	100%	17.92
San Antonio Airport (5)	258,800	231,777	94%	18.36
San Antonio West (5)	1,102,200	1,057,801	85%	14.96
St. Petersburg (3)	715,500	666,726	86%	15.79
Tallahassee	960,300	833,209	80%	18.39

Total	11,624,600	10,855,603

Weighted Average	Total Company	88%	$16.58
Weighted Average	Operational Buildings	88%	$16.46
Weighted Average	Buildings in Lease-up	81%	$19.68

(1) The percent leased rates have been calculated by dividing total rentable square feet leased in an office building by rentable square feet in such building.

(2) Rental rates are computed by dividing (a) total annualized base rents (which excludes expense pass-through and reimbursements) for a Koger Center or location as of September 30, 2001 by (b) the rentable square feet applicable to such total annualized base rents.

(3) Includes a building which is currently in the lease-up period.

(4) Includes the effect of net leases where tenants pay certain operating costs in addition to base rent.

(5) The Company has entered into an agreement to sell these properties. See Footnote 8 on Page 10 for additional information.

(b) The following schedule sets forth for all of the Company s buildings (i) the number of leases which will expire during the remainder of calendar year 2001 and calendar years 2002 through 2009, (ii) the total rentable area in square feet covered by such leases, (iii) the percentage of total rentable square feet represented by such leases, (iv) the average annual rent per square foot for such leases, (v) the current annualized base rents represented by such leases, and (vi) the percentage of total annualized base rents contributed by such leases. This information is based on the buildings owned by the Company on September 30, 2001 and on the terms of leases in effect as of September 30, 2001, on the basis of then existing base rentals, and without regard to the exercise of options to renew. Furthermore, the information below does not reflect that some leases have provisions for early termination for various reasons, including, in the case of government entities, lack of budget appropriations. Leases were renewed on approximately 68 percent of the Company s rentable square feet, which were scheduled to expire during the nine month period ended September 30, 2001.

Period	Number of Leases Expiring	Number of Square Feet Expiring	Percentage of Total Square Feet Leased Represented by Expiring Leases	Average Annual Rent per Square Foot Under Expiring Leases	Total Annualized Rents Under Expiring Leases	Percentage of Total Annualized Rents Represented by Expiring Leases
2001	218	682,455	7.2%	$16.58	$11,314,865	7.2%
2002	483	1,562,552	16.5%	16.95	26,480,999	16.9%
2003	457	2,126,412	22.5%	15.86	33,716,879	21.5%
2004	362	1,846,163	19.5%	16.14	29,793,244	19.0%
2005	168	922,459	9.8%	17.51	16,153,280	10.3%
2006	95	690,829	7.3%	17.57	12,137,874	7.8%
2007	19	491,080	5.2%	16.37	8,038,787	5.1%
2008	15	340,559	3.6%	18.09	6,162,198	3.9%
2009	9	246,334	2.6%	19.71	4,854,943	3.1%
Other	12	542,145	5.8%	14.90	8,079,734	5.2%
Total	1,838	9,450,988	100.0%	$16.58	$156,732,803	100.0%

(c) The Company believes that Funds from Operations is one measure of the performance of an equity real estate investment trust. Funds from Operations should not be considered as an alternative to net income as an indication of the Company s financial performance or to cash flow from operating activities (determined in accordance with generally accepted accounting principles) as a measure of the Company s liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company s needs. Funds from Operations is calculated as follows (in thousands):

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2001	2000	2001	2000
Net Income	$8,006	$9,346	$25,344	$20,541
Depreciation real estate	8,849	7,889	24,991	23,348
Amortization deferred tenant costs	597	500	1,658	1,431
Amortization goodwill	43	43	128	128
Minority interest	323	361	937	992
Gain on sale of operating properties		(1,709)		(6,385)
Gain on sale or disposition of non-operating assets		(324)		(52)
Funds from Operations	$17,818	$16,106	$53,058	$40,003

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
11	Earnings Per Share Computations.
15 Letter re: Unaudited interim financial information.	

(b) Report on Form 8-K

On August 27, 2001, the Company filed a Form 8-K (dated August 23, 2001) reporting under Item 9, Regulation FD Disclosure, the announcement of an agreement for the sale of certain of its non-core assets and providing under Item 7, Financial Statements and Exhibits, (i) Purchase and Sale Agreement by and among Koger Equity, Inc., as Seller, and AREIF II Realty Trust, Inc., as Buyer, dated as of August 23, 2001 and (ii) Koger Equity, Inc. News Release dated August 23, 2001.

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SIGNATURES

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

KOGER EQUITY, INC.
Registrant

/s/ Robert E. Onisko

ROBERT E. ONISKO
CHIEF FINANCIAL OFFICER

Dated: November 12, 2001

/s/ James L. Stephens

JAMES L. STEPHENS
VICE PRESIDENT AND
CHIEF ACCOUNTING OFFICER