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

FORM 10-K

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

For the fiscal year ended December 31, 2005

Commission file number 001-32389

NTS REALTY HOLDINGS LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2111139

(I.R.S. Employer Identification No.)

10172 Linn Station Road

Louisville, Kentucky

(Address of principal executive offices)

40223

(Zip Code)

Registrant's telephone number, including area code (502) 426-4800

Securities registered pursuant to Section 12(b) of the Act:

Limited Partnership Units

(Title of each class)

American Stock Exchange

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the 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 ☐ No ☒

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 ☐ No ☒

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 ☒ No ☐

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes ☒ No ☐

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 ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of June 30, 2005, the aggregate market value of the registrant's limited partnership units held by nonaffiliates of the registrant based on the closing price of the American Stock Exchange was \$25,134,387. As of March 31, 2006, there were 11,381,608 limited partnership units of the registrant issued and outstanding.

Documents Incorporated by Reference: Portions of the registrant's proxy statement for the annual meeting of limited partners to be held in 2006 are incorporated by reference into Part III of this Form 10-K.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP

FORM 10-K

TABLE OF CONTENTS

PART I

| | |
|---|----|
| ITEM 1 - BUSINESS | 3 |
| ITEM 1A - RISK FACTORS..... | 7 |
| ITEM 1B - UNRESOLVED STAFF COMMENTS | 12 |
| ITEM 2 - PROPERTIES..... | 12 |
| ITEM 3 - LEGAL PROCEEDINGS | 19 |
| ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS..... | 20 |

PART II

| | |
|---|-----|
| ITEM 5 - MARKET FOR REGISTRANT’S LIMITED PARTNERSHIP UNITS AND RELATED PARTNER MATTERS | 21 |
| ITEM 6 - SELECTED FINANCIAL DATA..... | 22 |
| ITEM 7 - MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS..... | 24 |
| ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 66 |
| ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 67 |
| ITEM 9 - CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE..... | 121 |
| ITEM 9A - CONTROLS AND PROCEDURES | 121 |
| ITEM 9B - OTHER INFORMATION | 121 |

PART III

| | |
|--|-----|
| ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT | 122 |
| ITEM 11 - EXECUTIVE COMPENSATION | 122 |
| ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT | 122 |
| ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 122 |
| ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES..... | 122 |

PART IV

| | |
|--|-----|
| ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES | 123 |
| SIGNATURES | 127 |

PART I

ITEM 1 - BUSINESS

General

NTS Realty Holdings Limited Partnership (“NTS Realty,” “we,” “us” or “our”) was organized as a limited partnership in the State of Delaware in 2003 and was formed by the merger of NTS-Properties III; NTS-Properties IV; NTS-Properties V, a Maryland limited partnership; NTS-Properties VI, a Maryland limited partnership; and NTS-Properties VII, Ltd. (the “Partnerships”), along with other real estate entities affiliated with their general partners, specifically Blankenbaker Business Center 1A and the NTS Private Group’s assets and liabilities. The merger was completed on December 28, 2004 after a majority of each Partnership’s limited partners voted for the merger. The Partnerships and Blankenbaker Business Center 1A were terminated by the merger and ceased to exist. Concurrent with the merger, ORIG, LLC (“ORIG”), a Kentucky limited liability company, affiliated with the Partnerships’ general partners, contributed substantially all of its assets and liabilities to NTS Realty, including the NTS Private Group properties. The merger was part of a court approved settlement of class action litigation involving the Partnerships. Prior to the merger and contribution, we had no operations and a limited amount of assets.

At December 31, 2005, we own twenty-eight properties, comprised of six multifamily properties; eighteen office and business centers; three retail properties; and one ground lease. The properties are located in and around Louisville (19) and Lexington (1), Kentucky; Orlando (2) and Fort Lauderdale (3), Florida; Indianapolis (2), Indiana and Atlanta (1), Georgia. Our office and business centers aggregate approximately 1.7 million square feet. We own multifamily properties containing approximately 1,570 units and retail properties containing approximately 210,000 square feet of space, as well as one ground lease associated with a 120-space parking lot attached to one of our properties.

Our prior year disclosures have stated our number of properties to be thirty-two properties including nine multifamily properties, nineteen office and business centers, three retail properties and one ground lease. The nine multifamily properties consisted of five apartment communities that were previously listed and accounted for in our disclosures by phases. Park Place Apartments Phases I, II and III were previously listed as three properties, but commencing with this disclosure will now be combined and referred to as “Park Place Apartments.” The Willows of Plainview Apartments Phases I, II and the Park at the Willows were previously listed as three properties and will now be combined and referred to as “The Willows of Plainview Apartments.” Thus, the number of multifamily properties listed in our disclosures through December 31, 2005 will appear to be reduced from 9 to 6 (Park Place Apartments, The Willows of Plainview Apartments, Willow Lake Apartments, Golf Brook Apartments, and Sabal Park Apartments plus our 2005 acquisition of The Lakes Apartments). Furthermore, of the nineteen office and business centers previously listed in our disclosures, Blankenbaker Business Center IA and Blankenbaker Business Center IB had previously been referred to as two separate properties, but commencing with this filing will be referred to as one property, “Blankenbaker Business Center I” (the building was built in two phases but is connected by a courtyard). Subsequent to the end of 2005, but prior to the filing of this annual report, we sold Golf Brook Apartments and Sabal Park Apartments and acquired five additional multifamily properties which are commonly referred to as The Groves at Richland, The Groves at Whitworth, The Groves at Swift Creek, Castle Creek and Lake Clearwater. Therefore, at December 31, 2005 the total number of properties owned by the Partnership is twenty-eight, consisting of six multifamily properties, eighteen office and business centers, three retail properties and one ground lease. The subsequent acquisitions have changed our total number of properties to thirty-one, including nine multifamily properties, eighteen office and business centers, three retail properties and one ground lease.

On December 29, 2004, the American Stock Exchange began to list our limited partnership units (the “Units”) for trading. Our Units currently are listed on the American Stock Exchange under the trading symbol “NLP.”

NTS Realty Capital, Inc. (“NTS Realty Capital”) and NTS Realty Partners, LLC serve as our general partners. Our partnership agreement vests principal management discretion in our managing general partner, NTS Realty Capital, which has the exclusive authority to oversee our business and affairs, subject only to the restrictions in our certificate of limited partnership and partnership agreement. NTS Realty Capital has a five-member board of directors, the majority of whom must be considered to be “independent directors” under the standards promulgated by the American Stock Exchange. Our limited partners have the power to elect these directors on an annual basis.

We do not have any employees. We have entered into a management agreement with NTS Development Company (“NTS Development”), an affiliate of our general partners, whereby NTS Development oversees and manages the day-to-day operations of our properties. The initial term of the management agreement is one year, provided that NTS Realty Capital is permitted to terminate the agreement on sixty days’ notice. Under this agreement, NTS Development is responsible for managing each of our properties and in return will receive, in most cases, an annual fee equal to 5% of all gross revenues generated by multifamily properties and 6% of all gross revenues generated by commercial properties. However, we will continue to pay NTS Development a fee equal to 5% of all gross revenues generated by the three properties we acquired in the merger from NTS-Properties III. NTS Development’s management fee is paid monthly. NTS Development is also reimbursed for its direct out-of-pocket expenses incurred in operating our properties, including the cost of any goods or services obtained on our behalf from unaffiliated third parties and the salaries or wages of all property management personnel, excluding the chairman, president and chief executive officer of NTS Realty Capital.

Pursuant to the terms of the settlement agreement with respect to the class action litigation involving the Partnerships, the independent directors of our managing general partner have undertaken a review of the terms of our existing management agreement with NTS Development. In addition, the independent directors engaged a nationally recognized real estate expert to assist them in their review. Although the review of the management agreement has not yet been completed, we anticipate that we and NTS Development will enter into an amended and restated management agreement in the near future. We also anticipate that the terms of the amended and restated management agreement will be effective as of December 29, 2005.

Business and Investment Objectives and Operating Strategies

Since our formation, our business and investment objectives have been to:

- generate cash flow for distribution;
- obtain long-term capital gain on the sale of any properties;
- make new investments in properties or joint ventures, including by, directly or indirectly, developing new properties; and
- preserve and protect the limited partners’ capital.

The board of directors of NTS Realty Capital, in the board’s sole discretion, may change these investment objectives as it deems appropriate and in our best interests. Prior to changing any of the investment objectives, the board will consider, among other factors, expectations, changing market trends, management expertise and ability and the relative risks and rewards associated with any change.

We intend to reach our business and investment objectives through our acquisition and operating strategies. Our acquisition and operating strategies are to:

- maintain a portfolio which is diversified by property type and to some degree by geographical location;
- achieve and maintain high occupancy and increase rental rates through: (1) efficient leasing strategies, and (2) providing quality maintenance and services to tenants;
- control operating expenses through operating efficiencies and economies of scale;
- attract and retain high quality tenants;
- invest in properties that we believe offer significant growth opportunity; and
- emphasize regular repair and capital improvement programs to enhance the properties’ competitive advantages in their respective markets.

Competition

We compete with other entities both to locate suitable properties for acquisition, to locate purchasers for our properties and to locate tenants to rent space at each of our properties. Although our business is competitive, it is not seasonal. While the markets in which we compete are highly fragmented with no dominant competitors, we face substantial competition. This competition is generally for the retention of existing tenants at lease expiration or for new tenants when vacancies occur. There are numerous other similar types of properties located in close proximity to each of our properties. We maintain the suitability and competitiveness of our properties primarily on the basis of effective rents, amenities and services provided to tenants. The amount of leasable space available in any market could have a material adverse effect on our ability to rent space and on the rents charged. Competition to acquire existing properties from institutional investors and other publicly traded real estate limited partnerships and real estate investment trusts has increased substantially in the past several years. In many of our markets, institutional investors, owners and developers of properties compete vigorously to acquire, develop and lease space. Many of these competitors have substantially more resources than we do.

Competitive Advantages

We believe that we have competitive advantages that will enable us to be selective with respect to additional real estate investment opportunities. Our competitive advantages include:

- substantial local market expertise where we own properties;
- long standing relationships with tenants, real estate brokers and institutional and other owners of real estate in our markets; and
- fully integrated real estate operations that allow us to respond quickly to acquisition opportunities.

Distribution Policy

We pay distributions if and when authorized by our managing general partner. We are required to pay distributions on a quarterly basis, commencing in the first quarter of 2005, equal to sixty-five percent (65%) of our “net cash flow from operations” as this term is defined in regulations promulgated by the Treasury Department under the Internal Revenue Code of 1986, as amended; provided that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity level taxation for federal, state or local income tax purposes, we will adjust the amount distributed to reflect our obligation to pay tax. Any distribution other than a distribution with respect to the final quarter of a calendar year shall be made no later than forty-five (45) days after the last day of such quarter based on our estimate of “net cash flow from operations” for the year. Any distribution with respect to the final quarter of a calendar year shall be made no later than ninety (90) days after the last day of such quarter based on actual “net cash flow from operations” for the year, adjusted for any excess or insufficient distributions made with respect to the first three quarters of the calendar year. For these purposes, “net cash flow from operations” means taxable income or loss, increased by:

- tax-exempt interest;
- depreciation;
- amortization;
- cost recovery allowances; and
- other noncash charges deducted in determining taxable income or loss, and decreased by:
 - principal payments on indebtedness;
 - property replacement or reserves actually established;
 - capital expenditures when made other than from reserves or from borrowings, the proceeds of which are not included in operating cash flow; and
 - any other cash expenditures not deducted in determining taxable income or loss.

As noted above, “net cash flow from operations” is reduced by the amount of reserves as determined by us each quarter. NTS Realty Capital will establish these reserves for, among other things, working capital or capital improvement needs. Therefore, there is no assurance that we will have net cash flow from operations from which to pay distributions in the future. For example, our partnership agreement permits our managing general partner to reinvest sales or refinancing proceeds in new and existing properties or to create reserves to fund future capital expenditures. Because net cash flow from operations is calculated after reinvesting sales or refinancing proceeds or establishing reserves, we may not have any net cash flow from operations from which to pay distributions.

Investment and Financing Policies

We will consider the acquisition of additional multifamily properties, retail properties, office buildings and business centers from time to time, with our primary emphasis on multifamily and retail properties. These properties may be located anywhere within the continental United States; however, we will continue to focus on the Midwest and Southeast portions of the United States. We will evaluate all new real estate investment opportunities based on a range of factors including, but not limited to: (1) rental levels under existing leases; (2) financial strength of tenants; (3) levels of expense required to maintain operating services and routine building maintenance at competitive levels; and (4) levels of capital expenditure required to maintain the capital components of the property in good working order and in conformity with building codes, health, safety and environmental standards. We also plan not to acquire any new properties at a capitalization rate less than five percent (5%). Any properties we acquire in the future would be managed and financed in the same manner as the properties that we acquired in the merger, and we will continue to enforce our policy of borrowing no more than seventy percent (70%) of the sum of: (a) the appraised value of our fully-constructed properties and (b) the appraised value of our properties in the development stage as if those properties were completed and ninety-five percent (95%) leased.

In addition to the foregoing, we may engage in transactions structured as “like kind exchanges” of property to obtain favorable tax treatment under Section 1031 of the Internal Revenue Code. If we are able to structure an exchange of properties as a “like kind exchange,” then any gain we realize from the exchange would not be recognized for federal income tax purposes. The test for determining whether exchanged properties are of “like kind” is whether the properties are of the same nature or character.

Other Policies

We must obtain the approval of the majority of NTS Realty Capital’s independent directors before we may enter into a contract or a transaction with either of our general partners or their respective affiliates. In addition, we are prohibited from:

- acquiring or leasing any properties from, or selling any properties to, either of our general partners or their respective affiliates;
- leasing more than fifteen percent (15%) of any property to our general partners or their affiliates; provided further, that any lease that we enter into with our general partners or their affiliates must be on terms and conditions, and at a rental value, no less favorable to us than those which have been determined by arms’ length negotiations with an unaffiliated third party;
- making any loans to our general partners or their affiliates;
- acquiring any properties in exchange for Units;
- paying any insurance brokerage fee to, or obtaining an insurance policy from, our general partners or their affiliates; and
- commingling our funds with funds not belonging to us.

Change in Policies

NTS Realty Capital, through its board of directors, determines our distribution, investment, financing and other policies. The board reviews these policies at least annually to determine whether they are being followed and if they are in the best interests of our limited partners. The board may revise or amend these policies at any time without a vote of the limited partners.

Working Capital Practices

Information about our working capital practices are included in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

Conflicts of Interest

Each of our general partners is controlled directly or indirectly by Mr. J.D. Nichols. At December 31, 2005, Mr. Nichols beneficially owns approximately 56% of our issued and outstanding Limited Partnership Units. Other entities controlled directly or indirectly by Mr. Nichols have made and may continue to make investments in properties similar to those that we acquired in the merger or contribution. In addition, affiliates of our general partners currently own vacant lots located adjacent to Blankenbaker Business Center I and Outlets Mall. These affiliates may acquire additional properties in the future which are located adjacent to properties that we acquired in the merger or contribution.

Environmental Matters

We believe that our portfolio of properties complies in all material respects with all federal, state and local environmental laws, ordinances and regulations regarding hazardous or toxic substances. During approximately the last ten years, independent environmental consultants have conducted Phase I or similar environmental site assessments on a majority of the properties that we acquired in the merger. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments may not, however, have revealed all environmental conditions, liabilities or compliance concerns.

Access to Company Information

We electronically file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the Securities and Exchange Commission (the "SEC"). The public may read and copy any of the reports that are filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800)-SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically.

We make available, free of charge, through our website, and by responding to requests addressed to our investor relations department, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports. These reports are available as soon as reasonably practical after such material is electronically filed or furnished to the SEC. Our website address is www.ntsdevelopment.com. The information contained on our website, or on other websites linked to our website, is not part of this document.

ITEM 1A - RISK FACTORS

Factors That May Affect Our Future Results

Cautionary Statements under the Private Securities Litigation Reform Act of 1995.

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They contain words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "can," "could," "might" and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. Such statements include information relating to anticipated operating results, financial resources, changes in revenues, changes in profitability, interest expense, growth and expansion, anticipated income to be realized from our investments in unconsolidated entities, the ability to acquire land, the ability to gain approvals and to open new communities, the ability to sell properties, the ability to secure materials and subcontractors, the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities in the future, and stock market valuations. From time to time, forward-looking statements also are included in our other periodic reports on Forms 10-Q and 8-K, in press releases, in presentations, on our web site and in other material released to the public.

Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned in this report or in other reports or public statements made by us, such as government regulation and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. The following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below, including factors unknown to us and factors known to us which we have not determined to be material, could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

Our principal unit holders may effectively exercise control over matters requiring unit holder approval.

As of December 31, 2005, Mr. J.D. Nichols and his affiliates owned, directly or indirectly, approximately 56% of the outstanding NTS Realty Holdings Limited Partnership Units. To the extent Mr. Nichols and his affiliates vote in the same manner, their combined ownership may effectively give them the power to elect all of the directors and control the management, operations and affairs of NTS Realty Holdings Limited Partnership. Their ownership may discourage someone from making a significant equity investment in NTS Realty Holdings Limited Partnership, even if we needed the investment to operate our business. The size of their combined holdings could be a significant factor in delaying or preventing a change of control transaction that other limited partners may deem to be in their best interests, such as a transaction in which the other limited partners would receive a premium for their shares over their current trading prices.

Our cash flows and results of operations could be adversely affected if legal claims are brought against us and are not resolved in our favor.

Claims have been brought against us in various legal proceedings which have not had, and are not expected to have, a material adverse effect on our business or financial condition. Should claims be filed in the future, it is possible that our cash flows and results of operations could be affected, from time to time, by the negative outcome of one or more of such matters.

There is no assurance we will have net cash flow from operations from which to pay distributions.

Our partnership agreement requires us to distribute at least sixty-five percent (65%) of our net cash flow from operations to our limited partners. There is no assurance that we will have any net cash flow from operations from which to pay distributions. Our partnership agreement also permits our managing general partner to reinvest sales or refinancing proceeds in new or existing properties or to create reserves to fund future capital expenditures. Because net cash flow from operations is calculated after reinvesting sales or refinancing proceeds or establishing reserves, we may not have any net cash flow from operations from which to pay distributions.

Risks Related to Our Business and Properties

We may suffer losses at our properties that are not covered by insurance.

We carry comprehensive liability, fire, extended coverage, terrorism and rental loss insurance covering all of our properties. We believe the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage and industry practice. None of the entities carry insurance for generally uninsured losses such as losses from riots, war, acts of God or mold. Some of the policies, like those covering losses due to terrorism and floods, are insured subject to limitations involving large deductibles or co-payments and policy limits which may not be sufficient to cover losses. If we experience a loss which is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged property as well as the anticipated future cash flows from that property. In addition, if the damaged property is subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if it was irreparably damaged.

Future terrorist attacks in the United States could harm the demand for and the value of our properties.

Future terrorist attacks in the U.S., such as the attacks that occurred in New York, Washington, D.C. and Pennsylvania on September 11, 2001, and other acts of terrorism or war could harm the demand for, and the value of, our properties. A decrease in demand could make it difficult for us to renew or re-lease our properties at lease rates equal to, or above, historical rates. Terrorist attacks also could directly impact the value of our properties through damage, destruction, loss, or increased security costs, and the availability of insurance for these acts may be limited or costly. To the extent that our tenants are impacted by future attacks, their ability to honor obligations under their existing leases with us could be adversely affected.

Our ability to pay distributions and the value of our properties and the Units are subject to risks associated with real estate assets and with the real estate industry in general.

Our ability to pay distributions depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control that could impact our ability to pay distributions, the value of our properties and the value of the Units include:

- local oversupply, increased competition or reduction in demand for office, business centers or multifamily properties;
- inability to collect rent from tenants;
- vacancies or our inability to rent space on favorable terms;
- increased operating costs, including insurance premiums, utilities, and real estate taxes;
- costs of complying with changes in governmental regulations;
- the relative illiquidity of real estate investments;
- changing market demographics; and
- inability to acquire and finance properties on favorable terms.

In addition, periods of economic slowdown or recession, 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 in increased defaults under existing leases, which could adversely affect our financial condition, results of operations, cash flow, the value of the Units and ability to satisfy our debt service obligations and to pay distributions to you.

We face significant competition, which may decrease the occupancy and rental rates of our properties.

We compete with several developers, owners and operators of commercial real estate, many of which own properties similar to ours. Our competitors may be willing to make space available at lower prices than the space in our properties. If our competitors offer space at rental rates below current market rates, we may lose potential tenants and be pressured to reduce our rental rates to retain an existing tenant when its lease expires. As a result, our financial condition, results of operations, cash flow, the value of the Units and ability to satisfy our debt service obligations and to pay distributions to you could be adversely affected.

Our debt level reduces cash available for distribution and could expose us to the risk of default under our debt obligations.

Payments of principal and interest on borrowings could leave us with insufficient cash resources to operate our properties or to pay distributions. Our level of debt could have significant adverse consequences, including:

- cash flow may be insufficient to meet required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms;
- we may be unable to refinance our indebtedness at maturity or the terms may be less favorable than the terms of our original indebtedness;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may default on our obligations and the lenders or mortgagees may foreclose on the properties securing their loans or receiving an assignment of rents and leases;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- default under any one of the mortgage loans with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, our financial condition, results of operations, cash flow, the value of the Units, our ability to satisfy our debt service obligations and to pay distributions to you could be adversely affected. In addition, foreclosures could create taxable income which would be allocated to all of the partners but we may not be able to pay a cash distribution to the partners to pay the resulting taxes.

We could incur significant costs related to government regulation and private litigation over environmental matters.

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be held liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property, and may be required to investigate and clean up any contamination at, or emanating from, that property. These laws often impose liability, which may be joint and several, without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants. The presence of contamination, or the failure to remediate contamination, may adversely affect the owner's ability to sell, lease or develop the real estate or to borrow using the real estate as collateral. In addition, the owner or operator of a site may be subject to claims by third parties based on personal injury, property damage or other costs, including costs associated with investigating or cleaning up the environmental contamination present at, or emanating from, a site.

These environmental laws also govern the presence, maintenance and removal of asbestos containing building materials, or "ACBM." These laws require that ACBM be properly managed and maintained, and may impose fines and penalties on building owners or operators who fail to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers. Some of our properties could contain ACBM.

Some of the properties in our portfolio contain or could have contained, or are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. For example, one of our properties currently has a service station located adjacent to it, and two of our properties are located on a former operating farm under which an underground tank was removed several years ago.

Recent news accounts suggest that there is an increasing amount of litigation over claims that mold or other airborne contaminants have damaged buildings or caused poor health. We have, infrequently, discovered relatively small amounts of mold-related damage at a limited number of our properties, generally caused by one or more water intrusions, such as roof leaks, or plugged air conditioner condensation lines. Mold and certain other airborne contaminants occur naturally and are present in some quantity in virtually every structure. A plaintiff could successfully establish that mold or another airborne contaminant at one of our properties causes or exacerbates certain health conditions. We generally have no insurance coverage for the cost of repairing or replacing elements of a building or its contents that are affected by mold or other environmental conditions, or for defending against this type of lawsuit.

We may incur significant costs complying with other regulations.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we may be fined or have to pay private damage awards. We believe that our properties materially comply with all applicable regulatory requirements. These requirements could change in the future requiring us to make significant unanticipated expenditures that could adversely impact our financial condition, results of operations, cash flow, the value of the Units, our ability to satisfy our debt service obligations and to pay distributions to you.

We may invest in joint ventures, which add another layer of risk to our business.

We may acquire properties through joint ventures which could subject us to certain risks which may not otherwise be present if we made the investments directly. These risks include:

- the potential that our joint venture partner may not perform;
- the joint venture partner may have economic or business interests or goals that are inconsistent with or adverse to our interests or goals;
- the joint venture partner may take actions contrary to our requests or instructions or contrary to our objectives or policies;
- the joint venture partner might become bankrupt or fail to fund its share of required capital contributions;
- we and the joint venture partner may not be able to agree on matters relating to the property; and
- we may become liable for the actions of our third-party joint venture partners.

Any disputes that may arise between joint venture partners and us may result in litigation or arbitration that would increase our expenses and prevent us from focusing our time and effort on the business of the joint venture.

Tax Risks

Tax gain or loss on disposition of Units could be different than expected.

If you sell your Units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those Units. Prior distributions to you in excess of the total net taxable income you were allocated for a Unit, which decreased your tax basis in that Unit, will, in effect, become taxable income to you if the Unit is sold at a price greater than your tax basis in that Unit, even if the price is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income.

If you are a tax-exempt entity, a mutual fund or a foreign person, you may experience adverse tax consequences from owning Units.

Investment in Units by tax-exempt entities, including employee benefit plans and individual retirement accounts, regulated investment companies or mutual funds and non-U.S. persons raises issues unique to them. For example, a significant amount of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to such a holder. Very little of our income will be qualifying income to a regulated investment company. Distributions to non-U.S. persons will be reduced by withholding tax at the highest marginal tax rate applicable to individuals, and non-U.S. holders will be required to file United States federal income tax returns and pay tax on their share of our taxable income.

We will treat each purchaser of Units as having the same tax benefits without regard to the Units purchased. The IRS may challenge this treatment, which could adversely affect the value of the Units.

Because we cannot match transferors and transferees of Units, we will adopt certain positions that do not conform with all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the timing or amount of tax benefits available to you, the amount of gain from your sale of Units or result in audit adjustments to your tax returns.

You likely will be subject to state and local taxes in states where you do not live as a result of an investment in Units.

In addition to federal income taxes, you likely will be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not live in any of those jurisdictions. You likely will be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. You must file all required United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the Units.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

General

As a result of the merger of the Partnerships with and into us and ORIG's contribution of substantially all of its assets and liabilities, we own fee simple title to eighteen office buildings and business centers, six multifamily properties, three retail properties and one ground lease. Set forth below is a description of each property:

Office Buildings

- NTS Center, which was constructed in 1977, is an office complex with approximately 116,200 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were seven tenants leasing office space aggregating approximately 87,700 square feet. NTS Center's tenants are professional service entities, principally in real estate and grocery chain management. Two of these tenants individually lease more than 10% of NTS Center's rentable area. NTS Center was 75% occupied as of December 31, 2005.
- Plainview Center, which was constructed in 1983, is an office complex with approximately 96,200 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were eight tenants leasing office space aggregating approximately 82,300 square feet. The tenants are professional service entities, principally in healthcare and victim notification services. Two of these tenants individually lease more than 10% of Plainview Center's net rentable area. Plainview Center was 86% occupied as of December 31, 2005.
- Plainview Point Office Center Phases I and II, which were constructed in 1983, is an office center with approximately 57,300 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were six tenants leasing office space aggregating approximately 37,800 square feet. The tenants are professional service entities, including a business school and an insurance company. One of these tenants leases more than 10% of the rentable area at Plainview Point Office Center Phases I and II. Plainview Point Office Center Phases I and II were 66% occupied as of December 31, 2005.
- Plainview Point Office Center Phase III, which was constructed in 1987, is an office center with approximately 61,700 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were eleven tenants leasing office space aggregating approximately 57,800 square feet. The tenants are professional service entities, principally involved in insurance claim processing, social security program management and consulting services. Three of these tenants individually lease more than 10% of Plainview Point Office Center Phase III. Plainview Point Office Center Phase III was 94% occupied as of December 31, 2005.
- Anthem Office Center, which was constructed in 1995, is an office building with approximately 93,300 net rentable square feet in Louisville, Kentucky. Anthem Office Center was vacant as of December 31, 2005.
- Atrium Center, which was constructed in 1984, is an office center with approximately 104,200 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were eleven tenants leasing office space aggregating approximately 83,600 square feet. The tenants are professional service entities, principally involved in video and media monitoring services and educational services. Two of these tenants individually lease more than 10% of Atrium Center's net rentable area. Atrium Center was 80% occupied as of December 31, 2005.

- Springs Medical Office Center, which was constructed in 1988, is a medical office complex with approximately 98,100 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were sixteen tenants leasing office space aggregating approximately 78,300 square feet. The tenants are professional service entities, principally involving physicians and medical services. Three of these tenants individually lease more than 10% of Springs Medical Office Center's net rentable area. Springs Medical Office Center was 80% occupied as of December 31, 2005.
- Springs Office Center, which was constructed in 1990, is an office center with approximately 125,900 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were eleven tenants leasing office space aggregating approximately 122,700 square feet. The tenants are professional service entities, principally in food service purchasing and insurance. Two of these tenants individually lease more than 10% of Springs Office Center's net rentable area. Springs Office Center was 97% occupied as of December 31, 2005.
- Sears Office Building, which was constructed in 1987, is an office building with approximately 66,900 net rentable square feet in Louisville, Kentucky. Sears Office Building was vacant as of December 31, 2005.

Business Centers

The business center properties are a combination of office and warehouse space including bulk warehouse distribution facilities. The office component is generally 40% or less of the square footage, with the warehouse portion being unfinished and used for storage, distribution or light assembly. The following is a brief description of each of these business center properties:

- Blankenbaker Business Center I (formerly Blankenbaker Business Centers 1A and 1B), which was constructed in 1988, is a business center with approximately 160,700 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, one tenant was leasing all 160,700 square feet. The tenant is a professional service entity in the insurance industry. Blankenbaker Business Center I was 100% occupied as of December 31, 2005.
- Blankenbaker Business Center II, which was constructed in 1988, is a business center with approximately 77,700 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were four tenants leasing space aggregating approximately 76,100 square feet. The tenants are professional service entities, principally in pharmaceutical distribution and operations, woodworking shop and general office, electronics repairs and construction of communication towers. All four tenants individually lease more than 10% of Blankenbaker Business Center II's net rentable area. Blankenbaker Business Center II was 98% occupied as of December 31, 2005.
- Clarke American, which was constructed in 2000, is a business center with approximately 50,000 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, one tenant was leasing all 50,000 square feet. The tenant is a professional service entity in the check printing industry. Clarke American was 100% occupied as of December 31, 2005.
- Commonwealth Business Center Phase I, which was constructed in 1984, is a business center with approximately 62,700 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were seven tenants leasing space aggregating approximately 46,300 square feet. The tenants are professional service entities, including a healthcare office, insurance company and a machinery sales and monitoring company. Three of these tenants individually lease more than 10% of the net rentable area at Commonwealth Business Center Phase I. Commonwealth Business Center Phase I was 74% occupied as of December 31, 2005.

- Commonwealth Business Center Phase II, which was constructed in 1985, is a business center with approximately 65,900 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were seven tenants leasing space aggregating approximately 37,300 square feet. The tenants are professional service entities, principally involved in engineering and a switching center. Two of these tenants individually lease more than 10% of the net rentable area at Commonwealth Business Center Phase II. Commonwealth Business Center Phase II was 57% occupied as of December 31, 2005.
- Lakeshore Business Center Phase I, which was constructed in 1986, is a business center with approximately 102,300 net rentable square feet in Fort Lauderdale, Florida. As of December 31, 2005, there were twenty-four tenants leasing space aggregating approximately 64,300 square feet. The tenants are professional service entities, principally in engineering, insurance and financial services and dental equipment suppliers. None of the tenants individually lease more than 10% of the net rentable area at Lakeshore Business Center Phase I. Lakeshore Business Center Phase I was 63% occupied as of December 31, 2005.
- Lakeshore Business Center Phase II, which was constructed in 1989, is a business center with approximately 96,200 net rentable square feet in Fort Lauderdale, Florida. As of December 31, 2005, there were sixteen tenants leasing space aggregating approximately 70,200 square feet. The tenants are professional service entities, principally in medical equipment sales, financial and engineering services and technology. One of these tenants individually leases more than 10% of the net rentable area at Lakeshore Business Center Phase II. Lakeshore Business Center Phase II was 73% occupied as of December 31, 2005.
- Lakeshore Business Center Phase III, which was constructed in 2000, is a business center with approximately 38,900 net rentable square feet in Fort Lauderdale, Florida. As of December 31, 2005, there were five tenants leasing space aggregating all 38,900 square feet. The tenants are professional service entities, principally insurance services, telecommunications, real estate development and engineering. Four of these tenants individually lease more than 10% of the net rentable area at Lakeshore Business Center Phase III. Lakeshore Business Center Phase III was 100% occupied as of December 31, 2005.
- Peachtree Corporate Center, which was constructed in 1979, is a business park with approximately 192,000 net rentable square feet in Atlanta, Georgia. As of December 31, 2005, there were fifty-four tenants leasing space aggregating approximately 182,400 square feet. The tenants are professional service entities, principally in sales-related services. None of these tenants individually lease more than 10% of Peachtree's net rentable area. Peachtree was 95% occupied as of December 31, 2005.

Multifamily Properties

- Golf Brook Apartments, which was constructed in 1988 and 1989, is a 195-unit luxury apartment complex located on a 16.5-acre tract in Orlando, Florida. As of December 31, 2005, the property was 99% occupied.
- Park Place Apartments (formerly Park Place Apartments Phases I, II and III), which was constructed in three phases, is a 464-unit luxury apartment complex located on a 42.5-acre tract in Lexington, Kentucky. Phases I and II were constructed between 1987 and 1989 and Phase III was constructed in 2000. As of December 31, 2005, the property was 91% occupied.
- Sabal Park Apartments, which was constructed in 1987, is a 162-unit luxury apartment complex located on a 13-acre tract in Orlando, Florida. As of December 31, 2005, the property was 98% occupied.

- The Willows of Plainview Apartments (formerly The Willows of Plainview Phases I and II and The Park at the Willows), which was constructed in three phases between 1985 and 1988, is a 310-unit luxury apartment complex located on a 19-acre tract in Louisville, Kentucky. As of December 31, 2005, the property was 88% occupied.
- Willow Lake Apartments, which was constructed in 1985, is a 207-unit luxury apartment complex located on an 18-acre tract in Indianapolis, Indiana. As of December 31, 2005, the property was 84% occupied.
- The Lakes Apartments, which was purchased in 2005, is a 230-unit luxury apartment complex located on a 19.7-acre tract in Indianapolis, Indiana. As of December 31, 2005, the property was 90% occupied.

Retail Properties

- Bed, Bath & Beyond, which was constructed in 1999, is an approximate 35,000 square foot facility in Louisville, Kentucky. Bed, Bath & Beyond was 100% occupied as of December 31, 2005.
- Outlets Mall, which was constructed in 1983, is a 162,600 square foot mall in Louisville, Kentucky which as of December 31, 2005 was 100% occupied. The property is occupied by Garden Ridge L.P. and three subtenants.
- Springs Station, which was constructed in 2001, is a retail facility with approximately 12,000 net rentable square feet in Louisville, Kentucky. As of December 31, 2005, there were six tenants leasing space aggregating all 12,000 square feet. The tenants who occupy Springs Station are professional service entities whose principal businesses are occupational therapy, staffing and retail jewelry. Three of these tenants individually lease more than 10% of the net rentable area at Springs Station. Springs Station was 100% occupied as of December 31, 2005.

Ground Lease

- We own the ground lease relating to a 120-space parking lot in Louisville, Kentucky and leased to ITT Educational Services, Inc. The ITT Parking Lot is attached to Plainview Point Office Center Phases I and II. The lease expires July 30, 2009.

Corporate Headquarters

Our executive offices are located at 10172 Linn Station Road, Suite 200, Louisville, Kentucky 40223, and our phone number is (502) 426-4800.

Occupancy Rates

The table below sets forth the average occupancy rate for each of the past three years with respect to each of our properties.

| | <i>Years Ended December 31,</i> | | |
|---|---------------------------------|-------------|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| <u>OFFICE BUILDING OCCUPANCY</u> | | | |
| NTS Center | 75% | 74% | 76% |
| Plainview Center | 85% | 80% | 70% |
| Plainview Point Office Center Phases I and II | 66% | 73% | 84% |
| Plainview Point Office Center Phase III | 88% | 74% | 50% |
| Anthem Office Center (2) | 67% | 100% | 100% |
| Atrium Center | 72% | 55% | 66% |
| Springs Medical Office Center | 87% | 93% | 91% |
| Springs Office Center | 98% | 97% | 90% |
| Sears Office Building (2) | 50% | 100% | 100% |
| <u>BUSINESS CENTER OCCUPANCY</u> | | | |
| Blankenbaker Business Center I | 100% | 100% | 100% |
| Blankenbaker Business Center II | 83% | 78% | 90% |
| Clarke American | 100% | 100% | 100% |
| Commonwealth Business Center Phase I | 70% | 82% | 91% |
| Commonwealth Business Center Phase II | 59% | 60% | 67% |
| Lakeshore Business Center Phase I | 61% | 71% | 70% |
| Lakeshore Business Center Phase II | 74% | 77% | 81% |
| Lakeshore Business Center Phase III | 100% | 91% | 59% |
| Peachtree Corporate Center | 93% | 87% | 84% |
| <u>MULTIFAMILY OCCUPANCY</u> | | | |
| Golf Brook Apartments | 97% | 96% | 93% |
| Park Place Apartments | 91% | 86% | 90% |
| Sabal Park Apartments | 98% | 96% | 93% |
| The Willows of Plainview Apartments | 86% | 84% | 87% |
| Willow Lake Apartments | 85% | 86% | 85% |
| The Lakes Apartments | 94% | N/A | N/A |
| <u>RETAIL OCCUPANCY</u> | | | |
| Bed, Bath & Beyond | 100% | 100% | 100% |
| Outlets Mall | 100% | 100% | 100% |
| Springs Station | 93% | 97% | 94% |
| <u>GROUND LEASE</u> | | | |
| ITT Parking Lot (1) | N/A | N/A | N/A |

- (1) The ground lease expires July 30, 2009 and is leased by one tenant in Plainview Point Office Center Phases I and II.
(2) These properties were vacant and unoccupied at December 31, 2005.

Tenant Information

We are not dependent upon any tenant for 10% or more of our revenues. The loss of any one tenant should not have a material adverse effect on our business or financial performance. The following table sets forth our ten largest tenants based on annualized base rent as of December 31, 2005.

| <i>Tenant</i> | <i>Total Leased Square Feet</i> | <i>Annualized Base Rent (1)</i> | <i>Percentage of Annualized Base Rent (1)</i> | <i>Lease Expiration</i> |
|------------------------------------|-------------------------------------|-------------------------------------|---|-----------------------------|
| SHPS/Prudential Service Bureau (2) | 160,689 | \$1,712,843 | 6.28% | 01/11/16 |
| Appriss, Inc. (2) | 54,298 | 919,752 | 3.37% | 07/31/07 |
| Food Service Purchasing Coop. (2) | 52,263 | 807,221 | 2.96% | 02/28/13 |
| Garden Ridge Corp. (2) | 162,617 | 731,777 | 2.68% | 03/12/10 |
| Kroger Company (2) | 54,535 | 701,011 | 2.57% | 06/30/06 |
| Clarke American Checks, Inc. (2) | 50,000 | 512,500 | 1.88% | 08/31/10 |
| Acordia of Kentucky (2) | 22,642 | 399,621 | 1.46% | 04/18/10 |
| Bed, Bath & Beyond (2) | 34,953 | 367,007 | 1.35% | 01/31/15 |
| Priority Healthcare (2) | 43,614 | 336,700 | 1.23% | 07/31/15 |
| Coherent, Inc. | 27,868 | 313,773 | 1.15% | 12/31/08 |

(1) Annualized Base Rent means annual contractual rent.

(2) A tenant of a Louisville, Kentucky property.

Indebtedness

The table below reflects the outstanding indebtedness from mortgages and notes payable for our properties as of December 31, 2005. Properties that are not encumbered by mortgages or notes are not listed below. Some of our mortgages and notes bear interest in relation to the Libor Rate. As of December 31, 2005, the Libor Rate was 4.39%. The Libor Rate is a variable rate of interest that is adjusted from time to time based on interest rates set by London financial institutions.

| <i>Property</i> | <i>Interest Rate</i> | <i>Maturity Date</i> | <i>Balance on December 31, 2005</i> |
|--|--------------------------|--------------------------|---|
| Lakeshore Business Center Phases I, II and III (1) | Libor + 2.50% | 01/01/08 | \$ 13,758,000 |
| NTS Realty Multifamily Properties (2) | 5.98% | 01/15/15 | 74,154,709 |
| NTS Realty (3) | 5.07% | 03/15/15 | 29,543,665 |
| Bed, Bath & Beyond (4) | 9.00% | 08/01/10 | 2,720,522 |
| Clarke American | 8.45% | 11/01/15 | 2,920,614 |
| Plainview Point Office Center Phase III (5) | 8.375% | 12/01/10 | 2,815,322 |
| The Lakes Apartments (6) | 5.11% | 12/01/14 | 12,100,000 |
| | | | <u>\$ 138,012,832</u> |

(1) This note is guaranteed individually and severally by Mr. Nichols and Mr. Brian F. Lavin in the prorata amounts of 75% and 25%, respectively.

(2) A balloon payment of \$62,866,145 is due upon maturity.

(3) A balloon payment of \$22,311,987 is due upon maturity.

(4) A balloon payment of \$2,213,097 is due upon maturity.

(5) A balloon payment of \$2,243,300 is due upon maturity.

(6) A balloon payment of \$10,269,282 is due upon maturity.

Our mortgages may be prepaid but are generally subject to a yield-maintenance premium.

Property Tax

The following table sets forth for each property that we own, the property tax rate and annual property taxes.

SCHEDULE OF ANNUAL PROPERTY TAX RATES AND TAXES - 2005

| <i>State</i> | <i>Property</i> | <i>Property Tax Rate (per \$100)</i> | <i>Gross Amount Annual Property Taxes (1)</i> |
|--------------|---|--|---|
| FL | Golf Brook Apartments | 1.64 | \$ 265,698 |
| FL | Lakeshore Business Center Phase I | 2.36 | 180,055 |
| FL | Lakeshore Business Center Phase II | 2.36 | 190,001 |
| FL | Lakeshore Business Center Phase III | 2.36 | 67,282 |
| FL | Sabal Park Apartments | 1.64 | 164,654 |
| GA | Peachtree Corporate Center | 3.23 | 103,432 |
| IN | Willow Lake Apartments | 2.79 | 253,399 |
| IN | The Lakes Apartments | 2.79 | 211,304 |
| KY | Anthem Office Center | 1.14 | 55,556 |
| KY | Atrium Center | 1.14 | 55,761 |
| KY | Bed, Bath & Beyond | 1.18 | 23,083 |
| KY | Blankenbaker Business Center I | 1.14 | 90,503 |
| KY | Blankenbaker Business Center II | 1.14 | 43,615 |
| KY | Clarke American | 1.14 | 26,726 |
| KY | Commonwealth Business Center I | 1.14 | 48,200 |
| KY | Commonwealth Business Center II | 1.14 | 34,669 |
| KY | ITT Parking Lot | 1.14 | 1,661 |
| KY | NTS Center | 1.14 | 69,914 |
| KY | Outlets Mall | 1.14 | 53,603 |
| KY | The Willows of Plainview Apartments | 1.14 | 127,224 |
| KY | Park Place Apartments | 1.03 | 225,767 |
| KY | Plainview Center | 1.14 | 31,619 |
| KY | Plainview Point Office Center Phases I & II | 1.14 | 19,732 |
| KY | Plainview Point Office Center Phase III | 1.14 | 31,065 |
| KY | Sears Office Building | 1.14 | 50,234 |
| KY | Springs Medical Office Center | 1.18 | 82,012 |
| KY | Springs Office Center | 1.18 | 98,149 |
| KY | Springs Station | 1.18 | 10,432 |
| | | | <u>\$ 2,615,350</u> |

- (1) Does not include any offset for property taxes reimbursed by tenants. Property taxes in Jefferson County, Kentucky are discounted by approximately 2% if they are paid prior to the due date. Discounts for early payment in other states generally provide no discount to the gross amount of property tax.

ITEM 3 - LEGAL PROCEEDINGS

On May 6, 2004, the Superior Court of the State of California for the County of Contra Costa granted its final approval of the settlement agreement jointly filed by the general partners (the “Former General Partners”) of the Partnerships, along with certain of their affiliates, with the class of plaintiffs in the action originally captioned *Buchanan, et al. v. NTS-Properties Associates, et al.* (Case No. C01-05090) (the “California Litigation”) on December 5, 2003. At the final hearing, class members were given the opportunity to object to the final approval of the settlement agreement, the entry of a final judgment dismissing with prejudice the California Litigation, or an application of an award for attorneys’ fees and expenses to plaintiffs’ counsel. The Superior Court’s order provided, among other things, that: (1) the settlement agreement, and all transactions contemplated thereby, including the merger of the Partnerships into us, were fair, reasonable and adequate, and in the best interests of the class of plaintiffs; (2) the plaintiffs’ complaint and each and every cause of action and claim set forth therein is dismissed with prejudice; and (3) each class member who did not request to be excluded from the settlement released all known and unknown claims against the defendants, including those claims being pursued in a competing class action in Kentucky, which is discussed in further detail below.

On June 11, 2004, several class members who objected to the settlement agreement but whose objections were overruled by the Superior Court, filed an appeal in the Court of Appeal of the State of California, First Appellate District. On July 28, 2005, the Court of Appeal issued its decision affirming the Superior Court’s approval of the settlement, and rejecting the objectors’ arguments. On October 5, 2005, the Court of Appeal of the State of California, First Appellate District entered a Remittitur Order stating that the time for appeal had expired and that the judgment of the Appellate Court was final. This effectively concludes the litigation. The matter was then sent back to the Superior Court of the State of California for the County of Contra Costa in order to conduct proceedings to effectuate the settlement.

On February 27, 2003, two individuals filed a class and derivative action in the Circuit Court of Jefferson County, Kentucky captioned *Bohm, et al. v. J.D. Nichols, et al.* (Case No. 03-CI-01740) (the “Kentucky Litigation”) against certain of the Former General Partners and several individuals and entities affiliated with us. The complaint was amended to include the general partner of NTS-Properties III and the general partner of NTS-Properties Plus Ltd. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, a declaratory judgment and injunctive relief.

On March 2, 2004, the Former General Partners filed a motion to dismiss the Kentucky Litigation. After the motion to dismiss was briefed, the settlement agreement in the California Litigation (discussed above) received final court approval. The Circuit Court of Jefferson County, Kentucky, instructed the plaintiffs in the Kentucky Litigation to file an amended complaint in light of the approved settlement of the California Litigation. The plaintiffs’ six opt-outs from the California Litigation filed a corrected second amended complaint on August 11, 2004.

On February 9, 2005, the Circuit Court instructed the defendants to file a responsive pleading only as to direct claims asserted by the plaintiffs in the Corrected Second Amended Complaint. On March 9, 2005, the Former General Partners, along with the other defendants, filed motions to dismiss the “corrected” second amended complaint.

On July 7, 2005, two of the plaintiffs in the Kentucky Litigation voluntarily dismissed their claims against the defendants. The Former General Partners believe that these dismissals affect the value and scope of plaintiffs’ claims. Accordingly, defendants remanded the hearing on the motion to dismiss originally scheduled for July 15, 2005, in order to properly advise the Court of the effect of the voluntary dismissals. A hearing on the motion to dismiss has been rescheduled for September 29, 2006.

Our legal counsel and we believe that the litigation pending in Kentucky is without merit, and therefore, are continuing to vigorously defend against it. No amounts have been accrued for the settlement of this action in our financial statements.

We do not believe there is any other litigation threatened against us other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material effect on our financial position or results of operations.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2005.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S LIMITED PARTNERSHIP UNITS AND RELATED PARTNER MATTERS

Common Stock Market Prices and Distributions

Beginning December 29, 2004, our units were listed for trading on the American Stock Exchange (the "Exchange") under the symbol NLP. The approximate number of record holders of our units at December 31, 2005 was 1,738.

High and low unit prices on the Exchange for the period December 29, 2004 through December 31, 2004 were \$5.50 to \$5.00. No distributions were declared or paid in 2004.

High and low unit prices on the Exchange for the period January 1, 2005 through December 31, 2005 were \$6.18 to \$4.80. Quarterly distributions are determined based on current cash balances, cash flow being generated by operations and cash reserves needed for future leasing costs, tenant finish costs and capital improvements.

The following table sets forth the price range of our limited partnership units on the American Stock Exchange and distributions declared for each quarter during the two years ended December 31, 2005.

| | <i>Three Months Ended</i> | | | |
|------------------------------|---------------------------|----------------|---------------------|--------------------|
| | <i>March 31</i> | <i>June 30</i> | <i>September 30</i> | <i>December 31</i> |
| 2005 | | | | |
| High | \$ 6.18 | \$ 5.70 | \$ 5.31 | \$ 6.11 |
| Low | \$ 5.00 | \$ 4.80 | \$ 4.95 | \$ 5.13 |
| Distributions declared | \$ 1,138,161 | \$ 1,138,161 | \$ 1,138,161 | \$ 2,276,321 |
| 2004 | | | | |
| High | \$ N/A | \$ N/A | \$ N/A | \$ 5.50 |
| Low | \$ N/A | \$ N/A | \$ N/A | \$ 5.00 |
| Distributions declared | \$ N/A | \$ N/A | \$ N/A | \$ N/A |

We have a policy of paying regular distributions, although there is no assurance as to the payment of future distributions because they depend on future earnings, capital requirements and financial condition. In addition, the payment of distributions is subject to the restrictions described in Part II, Item 8, Note 2, Section N, to the financial statements and discussed in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 6 - SELECTED FINANCIAL DATA

The following table sets forth our selected financial data for 2005 and prior years selected historical combined condensed financial and operating data as if NTS-Properties III, NTS-Properties IV, NTS-Properties V, a Maryland limited partnership, NTS-Properties VI, a Maryland limited partnership, NTS-Properties VII, Ltd. (the "Partnerships") and NTS Private Group were combined on a historical basis. The combined financial information is presented to provide a basis for discussion. This historical combined presentation reflects adjustments to the actual historical data to: 1) include a previously unconsolidated joint venture (Blankenbaker Business Center 1A); 2) eliminate the equity investment and minority interests in wholly combined joint ventures in the historical financial information of the applicable partnership; and 3) include any debt used by ORIG and its related interest cost to acquire interests in the Partnerships which was assumed by NTS Realty in the merger.

We have derived the statement of operations and balance sheet data for the year ended December 31, 2005. We have derived the statement of operations data for the period from January 1, 2004 to December 27, 2004 from our audited financial statements and the audited financial statements of the Partnerships and the NTS Private Group. We have derived our statement of operations and balance sheet data for the years ended December 31, 2003, 2002 and 2001 from the audited financial statements of the Partnerships and the NTS Private Group. We have derived the combined condensed statement of operations data consisting of interest expense relating to ORIG's debt from the unaudited financial statements of ORIG for each of the four years ended December 31, 2004. In the opinion of management, our unaudited financial statements have been prepared on a basis consistent with our audited financial statements and include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of our financial condition and the results of operations as of such date and for such periods under U.S. generally accepted accounting principles.

SUMMARY STATEMENT OF OPERATIONS AND BALANCE SHEET DATA

| | <i>Year Ended December 31,</i> | <i>Period Ended December 27,</i> | <i>Years Ended December 31,</i> | | |
|---|------------------------------------|--------------------------------------|---------------------------------|---------------------|---------------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(unaudited)</i> |
| STATEMENT OF OPERATIONS DATA | | | | | |
| REVENUE: | | | | | |
| Rental income..... | \$ 27,711,557 | \$ 26,337,976 | \$ 26,865,403 | \$ 27,171,787 | \$ 27,536,453 |
| Tenant reimbursements | 2,196,457 | 2,384,764 | 2,371,880 | 2,374,347 | 2,330,607 |
| Total revenue | 29,908,014 | 28,722,740 | 29,237,283 | 29,546,134 | 29,867,060 |
| EXPENSES: | | | | | |
| Operating expenses and operating expenses reimbursed to affiliate | 10,003,095 | 9,486,610 | 8,642,234 | 9,091,970 | 9,451,137 |
| Management fees..... | 1,400,065 | 1,585,469 | 1,610,953 | 1,635,211 | 1,656,506 |
| Property taxes and insurance..... | 2,847,529 | 2,405,244 | 2,702,399 | 2,442,735 | 2,448,313 |
| Professional and administrative expenses and professional and administrative expenses reimbursed to affiliate | 4,173,899 | 4,816,338 | 3,517,470 | 1,839,469 | 1,563,176 |
| Depreciation and amortization | 7,812,769 | 7,393,530 | 7,166,200 | 7,528,290 | 7,472,061 |
| Total operating expenses | 26,237,357 | 25,687,191 | 23,639,256 | 22,537,675 | 22,591,193 |
| OPERATING INCOME..... | 3,670,657 | 3,035,549 | 5,598,027 | 7,008,459 | 7,275,867 |
| Interest and other income and interest and other income reimbursed to affiliate | 443,164 | 1,604,051 | 358,270 | 293,450 | 550,996 |
| Interest expense and interest expense reimbursed to affiliate | (7,230,978) | (12,210,527) | (7,782,873) | (8,424,024) | (8,978,432) |
| Loss on disposal of assets | (619,768) | (65,034) | (299,345) | (129,690) | (178,522) |
| Settlement charge | - | (2,896,259) | - | - | - |
| Income from investment in joint venture..... | 953,300 | - | - | - | - |
| Loss from continuing operations..... | (2,783,625) | (10,532,220) | (2,125,921) | (1,251,805) | (1,330,091) |
| Discontinued operations, net | 745,238 | (10,569) | 924,715 | 883,944 | 868,055 |
| Gain on sale of discontinued operations | 270,842 | - | - | - | - |
| NET LOSS..... | \$ (1,767,545) | \$ (10,542,789) | \$ (1,201,206) | \$ (367,861) | \$ (462,036) |
| BALANCE SHEET DATA (end of year) | | | | | |
| Land, buildings and amenities, net | \$ 148,626,244 | \$ 133,296,746 | \$ 107,091,011 | \$ 111,176,067 | \$ 116,721,654 |
| Total assets | 187,808,823 | 166,547,424 | 115,451,443 | 125,832,914 | 131,358,857 |
| Mortgages and notes payable | 138,012,832 | 112,799,938 | 103,894,500 | 116,738,466 | 120,035,313 |

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section provides our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") as if the Partnerships, ORIG and the NTS Private Group were combined on a historical basis for the period ended December 27, 2004 and the year ended December 31, 2003. The combined financial information is presented to provide a basis for discussion. See Part II, Item 6 - Selected Financial Data for a description of certain assumptions made in the combined presentation for 2004 and 2003.

The following discussion should be read in conjunction with the historical and proforma financial statements appearing in Part II, Item 8.

Critical Accounting Policies

General

A critical accounting policy is one that would materially affect our operations or financial condition, and requires management to make estimates or judgments in certain circumstances. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. Critical accounting policies discussed in this section are not to be confused with accounting principles and methods disclosed in accordance with U.S. generally accepted accounting principles ("GAAP"). GAAP requires information in financial statements about accounting principles, methods used and disclosures pertaining to significant estimates. The following disclosure discusses judgments known to management pertaining to trends, events or uncertainties known which were taken into consideration upon the application of those policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions.

Impairment and Valuation

Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If this review indicates that the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value must be written down to fair value. In determining the value of an investment property and whether the investment property is impaired, management considers several factors such as projected rental and vacancy rates, property operating expenses, capital expenditures, interest rates and recent appraisals when available. The capitalization rate used to determine property valuation is based on among others, the market in which the investment property is located, length of leases, tenant financial strength, the economy in general, demographics, environment, property location, visibility, age and physical condition. All of these factors are considered by management in determining the value of any particular investment property. The value of any particular investment property is sensitive to the actual results of any of these factors, either individually or taken as a whole. If the actual results differ from management's judgment, the valuation could be negatively or positively affected.

The merger and property acquisition were accounted for using the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations." NTS Realty was treated as the purchasing entity. For the merger, the portion of each partnership's assets and liabilities acquired from unaffiliated third parties was adjusted to reflect its fair market value. That portion owned by affiliates of the general partners of the Partnerships was reflected at historical cost. The assets and liabilities contributed by NTS Private Group were adjusted to reflect their fair market value, except for that portion owned by Mr. Nichols which was reflected at historical cost due to his common control over the contributing entities.

In accordance with SFAS No. 141, we have allocated the purchase price of each acquired investment property among land, buildings and improvements, other intangibles, including acquired above market leases, acquired below market leases and acquired in place lease origination cost which is the market cost avoidance of executing the acquired leases. Allocation of the purchase price is an area that requires complex judgments and significant estimates. We used the information contained in a third-party appraisal as the primary basis for allocating the purchase price between land and buildings. A pro rata portion of the purchase price was allocated to the value of avoiding a lease-up period for acquired in-place leases. The value of in-place leases is amortized to expense over the remaining initial term of the respective leases. A portion of the purchase price was allocated to the estimated lease origination cost based on estimated lease execution costs for similar leases and considered various factors including geographic location and size of leased space. We then evaluated acquired leases based upon current market rates at the acquisition date and various other factors including geographic location, size and the location of leased space within the property, tenant profile and the credit risk of the tenant in determining whether the acquired lease is above or below market. After acquired leases were determined to be at, above or below market, we allocated a pro rata portion of the purchase price to any acquired above or below market lease based upon the present value of the difference between the contractual lease rate and the estimated market rate. We also consider an allocation of purchase price to in-place leases that have a customer relationship intangible value. The characteristics we consider in allocating these values include the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with the tenant and the tenant's credit quality and expectations of lease renewals. We did not have any tenants with whom we have identified a developed relationship that we believe had any intangible value.

Recognition of Rental Income

Under GAAP, we are required to recognize rental income based on the effective monthly rent for each lease. The effective monthly rent is equal to the average monthly rent during the term of the lease, not the stated rent for any particular month. The process, known as "straight-lining" or "stepping" rent generally has the effect of increasing rental revenues during the early phases of a lease and decreasing rental revenues in the latter phases of a lease. Due to the impact of "straight-lining," on a historical combining basis, rental income exceeded the cash collected for rent by approximately \$561,000, \$100,000 and \$323,000, for the years ended December 31, 2005, 2004 and 2003, respectively. If rental income calculated on a straight-line basis exceeds the cash rent due under the lease, the difference is recorded as an increase in deferred rent receivable and included as a component of accounts receivable on the relevant balance sheet. If the cash rent due under the lease exceeds rental income calculated on a straight-line basis, the difference is recorded as a decrease in deferred rent receivable and is recorded as a decrease of accounts receivable on the relevant balance sheet. We defer recognition of contingent rental income, such as percentage or excess rent, until the specified target that triggers the contingent rental income is achieved. We periodically review the collectability of outstanding receivables. Allowances are generally taken for tenants with outstanding balances due for a period greater than ninety days and tenants with outstanding balances due for a period less than ninety days but that we believe are potentially uncollectible.

Recognition of Lease Termination Income

We recognize lease termination income upon receipt of the income. We accrue lease termination income if there is a signed termination agreement, all of the conditions of the agreement have been met and the tenant is no longer occupying the property.

Cost Capitalization and Depreciation Policies

We review all expenditures and capitalize any item exceeding \$1,000 deemed to be an upgrade or a tenant improvement with an expected useful life greater than one year. Land, buildings and amenities are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Buildings and improvements have estimated useful lives between 7-30 years, land improvements have estimated useful lives between 5-30 years and amenities have estimated useful lives between 5-30 years. Acquired above and below market leases are amortized on a straight-line basis over the life of the related leases as an adjustment to rental income. Acquired in place lease origination cost is amortized over the life of the lease as a component of amortization expense.

Liquidity and Capital Resources

Our most liquid asset is our cash and cash equivalents, which consist of cash and short-term investments, but do not include any restricted cash. Operating income generated by the properties will be the primary source from which we generate cash. Other sources of cash include the proceeds from mortgage loans and notes payable. Our main uses of cash will relate to capital expenditures, required payments of mortgages and notes payable, distributions and property taxes.

| <i>Years Ended December 31,</i> | | | |
|--|---------------------|---------------------|-----------------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| Operating activities | \$ 7,327,456 | \$ 7,882,465 | \$ 8,775,624 |
| Investing activities..... | (26,104,202) | (2,129,478) | 2,393,950 |
| Financing activities | 21,612,209 | (4,516,844) | (12,381,984) |
| Net increase (decrease) in cash and equivalents | \$ 2,835,463 | \$ 1,236,143 | \$ (1,212,410) |

Cash Flow from Operating Activities

Net cash provided by operating activities decreased from approximately \$7,882,000 for the year ended December 31, 2004 to approximately \$7,327,000 for the year ended December 31, 2005. The decrease is primarily due to cash used to pay accounts payable.

Net cash provided by operating activities decreased from approximately \$8,776,000 for the year ended December 31, 2003 to approximately \$7,882,000 for the year ended December 31, 2004. The decrease is primarily due to reduced results of operations and to the change in accounts payable. As a result of the merger, we were able to reimburse NTS Development Company, an affiliate of ours, for deferred fees and expenses. The change in accounts payable was also the result of decreased payables related to litigation filed by limited partners and settlement directed merger costs.

Cash Flow from Investing Activities

Net cash flow used in investing activities increased from approximately \$2,129,000 for the year ended December 31, 2004 to approximately \$26,104,000 for the year ended December 31, 2005. The increase was primarily due to the acquisition of The Lakes Apartments in August 2005 as well as increased capital expenditures, which included tenant and vacant suite renovations and common area improvements at our commercial properties, roof replacements at our multifamily, retail and commercial properties and HVAC replacements and access control system upgrades at our commercial and multifamily properties.

Net cash flow used in investing activities was approximately \$2,129,000 for the year ended December 31, 2004. For the year ended December 31, 2003, net cash flow provided by investing activities was approximately \$2,394,000. The change from net cash flow provided in 2003 to net cash flow used in 2004 was primarily the result of cash payments in 2003 from NTS Private Group's affiliates of approximately \$6.1 million for notes receivable related to inter-company borrowings (no similar payments received in 2004), partially offset by a decrease of approximately \$1.3 million in additions to land, buildings and amenities in 2004 as compared to 2003.

Cash Flow from Financing Activities

Net cash flow used in financing activities was approximately \$4,517,000 for the year ended December 31, 2004. Net cash flow provided by financing activities was approximately \$21,612,000 for the year ended December 31, 2005. The change was primarily the result of \$42,100,000 in loan proceeds obtained during 2005. The increase is partially offset by the payoff of the note payable of approximately \$14,987,000 as well as principal payments incurred for each of our mortgages and notes payable.

For the years ended December 31, 2004 and 2003, we used approximately \$4,517,000 and \$12,382,000, respectively, in net cash for financing activities. The change was primarily the result of capital funding made as the result of the merger and cash payments made to NTS Private Group's affiliates in 2003 of approximately \$6.7 million for notes payable related to inter-company borrowings (no similar payments made in 2004), partially offset by a decrease of approximately \$2.3 million in principal payments on mortgages and notes payable in 2004 as compared to 2003.

Future Liquidity

Our future liquidity depends significantly on our properties' occupancy remaining at a level which provides for debt payments and adequate working capital, currently and in the future. If occupancy were to fall below that level and remain at or below that level for a significant period of time, our ability to make payments due under our debt agreements and to continue paying daily operational costs would be greatly impaired. In the next twelve months, we intend to operate the properties in a similar manner to their operation in recent years. Cash reserves, which consist of unrestricted cash as shown on our balance sheet, were approximately \$5,409,000 on December 31, 2005. As part of the merger, we refinanced approximately \$94.0 million of debt with approximately \$104.0 million of new debt. The refinancing, among other things, lowered interest rates and extended the amortization schedules. The refinancing of this debt allowed us to generate cash flow to pay capital expenditures, principal and interest expenses from mortgages and notes payable, deferred fees and expenses to NTS Development Company and quarterly distributions to our limited partners pursuant to our distribution policy.

We made quarterly distributions of \$0.10 per unit to our limited partners on May 13, 2005, July 15, 2005 and October 14, 2005 and a quarterly distribution of \$0.20 per unit to our limited partners on January 12, 2006.

We do not anticipate a significant impact to our liquidity as a result of the vacancy at the Sears Office Building and Anthem Office Center. However, the cost to lease these properties may be significant when a lease agreement with a tenant can be made.

We incurred capital expenditures of approximately \$117.2 million during February 2006 for the purchase of three multifamily properties; The Grove at Richland, The Grove at Whitworth, both located in Nashville, Tennessee and The Grove at Swift Creek, located in Chesterfield County, Virginia. This discussion of future liquidity, along with the table of contractual obligations and commercial commitments that follows, details our material commitments.

Joint Venture Investment

On September 12, 2005, we entered into a joint venture investment with an unaffiliated third-party investor to acquire an approximately \$16.0 million mortgage loan secured by real property and improvements. We contributed \$200,000 as capital and held a 45% interest in the joint venture, which we accounted for using the equity method. We loaned the joint venture \$1.8 million on a note receivable with an interest rate of 8%, which was due on December 31, 2011, with interest payable on each December 31. We also loaned the joint venture approximately \$7.0 million on a \$7.2 million note receivable due on September 30, 2006, and bearing interest monthly, of LIBOR plus 1.75%. This investment in and notes receivable from the joint venture were funded with borrowings on our revolving note payable to a bank.

The unaffiliated third-party investor contributed \$400,000 as capital and held a 55% interest in the joint venture. The investor also loaned the joint venture \$3.6 million on a note receivable with an interest rate of 8%, which was due on December 31, 2011. The principal repayments on the \$1.8 million and \$3.6 million notes were subordinate to the repayment of the balance due on the \$7.2 million note.

In December 2005, the joint venture liquidated and ceased to exist. As a result of the liquidation, we received approximately \$953,000 in joint venture income.

Property Transactions

On August 26, 2005, we closed on our Agreement of Sale with Great Lakes Property Group Trust to purchase The Lakes Apartments, located adjacent to Willow Lake Apartments, in Indianapolis, Indiana. The Lakes is a 230-unit luxury multifamily property which includes amenities such as a fitness center, car wash, swimming pool and lighted tennis court.

On August 24, 2005, we closed on a \$20.0 million line of credit from PNC Bank, National Association. We used a portion of the proceeds from the line of credit to pay the purchase price for The Lakes Apartments, pending permanent financing. We intend to use proceeds from the line of credit to assist in future acquisitions and other working capital needs. The line of credit was increased to \$24.0 million in March 2006.

On September 13, 2005, we announced that we entered into an agreement to sell the Sears Office Building, one of our office buildings located in Jefferson County, Kentucky, to an unaffiliated local nonprofit corporation for \$5.6 million.

On September 30, 2005, we announced that we entered into separate agreements to sell Golf Brook Apartments and Sabal Park Apartments, our multifamily properties located in Orlando, Florida, to an unaffiliated Florida corporation. We agreed to receive an aggregate purchase price of approximately \$71.5 million for the properties at closing.

On November 1, 2005, we announced that we entered into two agreements to purchase two multifamily properties located in Nashville, Tennessee and one multifamily property located in Chesterfield County, Virginia from an unaffiliated Delaware limited partnership. Subject to the terms and conditions of the agreements, we agreed to pay approximately \$117.2 million for the properties. The properties in Nashville consist of apartment complexes with 292 units and 301 units, respectively, while the Chesterfield County property has 240 units.

On December 9, 2005, we announced that we were notified by the prospective purchaser of the Sears Office Building, one of our office buildings located in Jefferson County, Kentucky, that such purchaser was not able to fulfill its obligations under the purchase agreement it entered into with us and, thus, terminated the agreement.

On February 2, 2006, we closed on our agreements to sell Golf Brook Apartments and Sabal Park Apartments, our multifamily properties located in Orlando, Florida, to an unaffiliated Florida corporation for a purchase price of approximately \$71.5 million.

On February 3, 2006, we closed on our two agreements to purchase two multifamily properties located in Nashville, Tennessee and one agreement to purchase a multifamily property in Chesterfield County, Virginia for a purchase price totaling approximately \$117.2 million (a portion of which was satisfied by the assumption of a mortgage loan with a current outstanding balance of approximately \$33.4 million). The Tennessee properties are commonly known as The Grove at Richland and The Grove at Whitworth, while the Virginia property is commonly known as The Grove at Swift Creek.

On February 7, 2006, we announced that we entered into an agreement to purchase two multifamily properties located in Indianapolis, Indiana. These properties are commonly known as AMLI at Castle Creek and AMLI at Lake Clearwater. Castle Creek has 276 units and Lake Clearwater has 216 units. Subject to the terms and conditions of the agreement, we have agreed to pay a purchase price totaling approximately \$50.0 million.

On March 6, 2006, we announced that we entered into an agreement to sell Commonwealth Business Center Phases I and II, two of our business centers located in Jefferson County, Kentucky, to an unaffiliated Kentucky limited liability company for \$7.1 million.

On March 23, 2006, we closed on our agreement to purchase the two multifamily properties located in Indianapolis, Indiana, using a bank loan of approximately \$42.5 million, guaranteed by the partnership, and an advance on our line of credit for the balance.

We anticipate using substantially all of the proceeds from the sale of our properties for reinvestment in the properties we have agreed to purchase. Additional sales of properties and financing will be required to purchase future properties. There are significant and potentially material financial risks associated with our ability to execute certain transactions. The sale and reinvestment are expected to qualify for the “like-kind” exchange investment rules pursuant to Section 1031 of the Internal Revenue Code. We expect this to minimize any taxable gain to our unit holders as a result of the sale and reinvestment transactions.

We have presented separately as discontinued operations in all periods the results of operations for Golf Brook Apartments and Sabal Park Apartments.

The components of discontinued operations are outlined below and include the results of operations for the respective periods in which we owned such assets during the years ended December 31, 2005, 2004 and 2003.

| | <i>Years Ended December 31,</i> | | |
|--|---------------------------------|--------------------|-------------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| REVENUE: | | | |
| Rental income..... | \$ 5,390,459 | \$ 4,908,009 | \$ 4,896,865 |
| Total revenue | 5,390,459 | 4,908,009 | 4,896,865 |
| EXPENSES: | | | |
| Operating expenses and operating expenses reimbursed to affiliate..... | 2,273,722 | 2,051,333 | 1,902,242 |
| Management fees..... | 270,395 | 243,531 | 243,964 |
| Property taxes and insurance..... | 592,220 | 574,605 | 585,509 |
| Depreciation and amortization | 792,904 | 845,673 | 839,876 |
| Total operating expenses | 3,929,241 | 3,715,142 | 3,571,591 |
| DISCONTINUED OPERATING INCOME | 1,461,218 | 1,192,867 | 1,325,274 |
| Interest and other income..... | 4,742 | 4,367 | 6,413 |
| Interest expense..... | (678,667) | (1,198,385) | (402,411) |
| Loss on disposal of assets | (42,055) | (9,418) | (4,561) |
| DISCONTINUED OPERATIONS, NET | \$ 745,238 | \$ (10,569) | \$ 924,715 |

Hurricane Wilma

On October 23, 2005, Hurricane Wilma (the “Hurricane”) struck the peninsula of Florida. Our properties in Fort Lauderdale, Florida were damaged by this storm. The commercial properties involved are the Lakeshore Business Center Phases I, II and III. While these properties are covered by insurance, the deductible for hurricane damage is two percent (2%) of the insured value. For Lakeshore Business Center Phases I, II and III, these amounts are approximately \$190,000, \$185,000 and \$84,000, respectively. We do not expect to receive any insurance reimbursements as our repair costs have not exceeded these deductible amounts. As of December 31, 2005, our cost to repair our properties totaled approximately \$324,000, which was included in our operating expenses.

Merger/Settlement Charge

NTS Realty was formed as part of a class action settlement where its affiliate and limited partner ORIG admitted a “qualified settlement trust” as a special member of ORIG. This special member interest was created for the benefit of the class members in the litigation who are former limited partners who sold their limited partnership interests to ORIG, its affiliates or the Partnerships either as part of tender offers, other repurchase programs or otherwise. Under the terms of ORIG’s operating agreement, all of the economic and other rights associated with up to 620,000 Units owned by ORIG have been designated for the benefit of the qualified settlement trust. ORIG owns the Units, but all of the rights associated with the Units inures to the qualified settlement trust. Plaintiffs’ counsel, or his designee, will have the right, acting as a representative of these former limited partners, to cause ORIG to vote these designated Units pursuant to his direction. The amount of Units was determined based on the \$6.2 million noncash amount of the \$6.85 million settlement amount agreed upon by the general partners and plaintiffs’ counsel. Therefore, if each Unit is valued at \$10.00, then the economic and other rights associated with 620,000 Units will be needed to satisfy the settlement amount. The final amount of the settlement, however, is based on the aggregate amount of valid claims filed by the former limited partners in the class of plaintiffs. If claims are not made for the full \$6.2 million settlement amount, ORIG will designate the economic and other rights to fewer Units for the benefit of the qualified settlement trust to satisfy the claims. We refer to these designated Units as the “Class Units.” Under the terms of the settlement agreement governing the qualified settlement trust, Mr. Nichols, his spouse and Mr. Lavin are jointly obligated, for a period of two years ending December 28, 2007, to repurchase from the qualified settlement trust, using 75% of the distributions that ORIG receives in respect of the Units owned by ORIG which otherwise would have gone to Mr. Nichols, his spouse or Mr. Lavin, the economic and other rights associated with the number of Class Units calculated under the formula described below. Each payment results in the redesignation of rights associated with the number of Class Units equal to the amount of the distribution divided by 115% of the “fair market value” of the Units. As a result of each payment, the number of Class Units designated for the benefit of the qualified settlement trust will decrease until the economic and other rights associated with all of the Class Units are ultimately redesignated for the benefit of Mr. Nichols, his spouse, and/or Mr. Lavin within two years of when we begin making distributions. If any Class Units remain at the end of this two-year period, Mr. Nichols, his spouse and Mr. Lavin must make a final payment to the qualified settlement trust that is sufficient to redesignate any remaining Class Units. For these purposes, fair market value will be equal to the average closing price of the Units on the American Stock Exchange for the thirty-day period prior to the date of the redesignation. Our Statement of Operations includes a noncash charge in 2004 for our estimate related to the settlement with a corresponding credit to Partners’ Equity immediately following the completion of the merger. The noncash charge was approximately \$2.9 million. Our earnings in 2004 were negatively impacted by this noncash charge. However, there was no effect on our future liquidity because Mr. Nichols, his spouse and Mr. Lavin must make the payments to the qualified settlement trust to redesignate the Class Units as set forth above.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2005 AS COMPARED TO DECEMBER 31, 2004,
AS COMPARED TO DECEMBER 31, 2003

This section describes our results of operations for the years ended December 31, 2005, 2004 and 2003 as if it were combined with our predecessors' operations without adjustment. The combined financial information is presented to provide a basis for discussion. As of December 31, 2005, we owned eighteen office and business centers, six multifamily properties, three retail properties and one ground lease. We generate substantially all of our operating income from property operations.

Our net losses for the three years ended December 31, 2005 were approximately \$1,768,000, \$10,543,000 and \$1,201,000, respectively. The increased net loss for 2004 was primarily the result of the mortgage prepayment penalties paid in 2004, the non-cash settlement charge and the effects of continuing legal and professional expenses related to the merger and the class action litigation. 2005 was negatively impacted by continuing legal fees related to the class action litigation. Rental income remained relatively stable for all three years.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$29,908,000 and \$28,723,000, respectively. The increase of approximately \$1,185,000, or 4%, was primarily the result of increased average occupancy at our multifamily properties, as well as increased average occupancy and decreased free rent at our commercial properties. Approximately \$688,000 of the increase was due to the acquisition of The Lakes Apartments in August 2005.

Rental income and tenant reimbursements from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$28,723,000 and \$29,238,000, respectively. The decrease of approximately \$515,000, or 2%, was not a significant change and is not indicative of any known trend or uncertainty. There were no offsetting material changes.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$6,725,000 and \$6,025,000, respectively. The increase of approximately \$700,000, or 12%, was primarily the result of the acquisition of The Lakes Apartments in August 2005, as well as damage from Hurricane Wilma at Lakeshore Business Center Phases I, II and III.

Operating expenses from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$6,025,000 and \$5,528,000, respectively. The increase of approximately \$497,000, or 9%, was primarily the result of increased repairs and maintenance expenses and tax consulting fees at our multifamily properties, increased repairs and maintenance expenses and bad debt expense at our commercial properties, as well as increased bad debt expense at our retail properties (primarily due to our tenant at Outlets Mall declaring bankruptcy during February 2004). The increase was partially offset by decreased bad debt expense at our multifamily properties and decreased nonrecoverable expenses at our commercial properties.

Operating expenses reimbursed to affiliate from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$3,278,000 and \$3,462,000, respectively. The decrease of approximately \$184,000, or 5%, was primarily due to decreased personnel costs at our commercial properties.

Operating expenses reimbursed to affiliate from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$3,462,000 and \$3,115,000, respectively. The increase of approximately \$347,000, or 11%, was primarily due to increased personnel costs at our multifamily, commercial and retail properties.

Operating expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

Management Fees

Management fees from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$1,400,000 and \$1,585,000, respectively. The decrease of approximately \$185,000, or 12%, was primarily due to a change in the management fee calculation pursuant to the terms of our agreement with NTS Development Company.

Management fees from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$1,585,000 and \$1,611,000, respectively. The decrease of approximately \$26,000, or 2%, was not significant and is not indicative of any known trend or uncertainty. There were no offsetting material changes.

Property Taxes and Insurance

Property taxes and insurance from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$2,848,000 and \$2,405,000, respectively. The increase of approximately \$443,000, or 18%, was primarily due to our multifamily properties as a result of reduced periodic expense in 2004 due to adjustments to the accrued tax liability for the reduction of the tax assessments at Willow Lake Apartments, as well as the acquisition of The Lakes Apartments in August 2005.

Property taxes and insurance from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$2,405,000 and \$2,702,000, respectively. The decrease of approximately \$297,000, or 11%, was primarily due to our multifamily properties as a result of decreased tax assessments by the local taxing authority for one of the multifamily properties (Willow Lake Apartments). We received notice of increased tax assessments in 2003 and retained a consultant to negotiate a reduction of the assessments. During the ensuing time period, the general partners of the Partnerships decided to accrue property tax expense according to the assessed rate and not at the anticipated reduced rate. During the first and third quarters of 2004, the general partners of the Partnerships received notices of the reduction of the assessments and were able to adjust the periodic expense accordingly. The general partners of the Partnerships did not record a gain contingency for any property tax over-payments refunded in 2004. The decrease was partially offset by increased insurance expense at our multifamily properties.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Professional and administrative expenses from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$2,757,000 and \$3,705,000, respectively. The decrease of approximately \$948,000, or 26%, was primarily due to decreased legal and professional fees in relation to the merger and class action litigation. The decrease was partially offset by increased audit, tax and consulting fees.

Professional and administrative expenses from continuing operations for the years ended December 2004 and 2003 were approximately \$3,705,000 and \$2,514,000, respectively. The increase of approximately \$1,191,000, or 47%, was primarily due to increased legal and professional fees in relation to the merger and class action litigation.

Professional and administrative expenses from continuing operations for the years ended December 31, 2005, 2004 and 2003 included approximately \$322,000, \$2,156,000 and \$757,000, respectively of merger expenses. Professional and administrative expenses from continuing operations for the years ended December 31, 2005, 2004 and 2003 included approximately \$760,000, \$723,000 and \$704,000, respectively of litigation expenses.

Professional and administrative expenses reimbursed to affiliate from continuing operations for the years ended December 31, 2005 and 2004 were approximately \$1,417,000 and \$1,111,000, respectively. The increase of approximately \$306,000, or 28%, was primarily due to increased personnel costs.

Professional and administrative expenses reimbursed to affiliate from continuing operations for the years ended December 31, 2004 and 2003 were approximately \$1,111,000 and \$1,003,000, respectively. The increase of approximately \$108,000, or 11%, was primarily due to increased personnel costs.

Professional and administrative expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate consisted of the following:

| | <i>Years Ended December 31,</i> | | |
|-------------------------|---------------------------------|---------------------|---------------------|
| | <i>2005</i> | <i>2004</i> | <i>2003</i> |
| Finance | \$ 385,000 | \$ 298,000 | \$ 246,000 |
| Accounting | 635,000 | 485,000 | 415,000 |
| Investor Relations..... | 197,000 | 153,000 | 156,000 |
| Human Resources..... | 14,000 | 73,000 | 74,000 |
| Overhead | 186,000 | 102,000 | 112,000 |
| Total | \$ 1,417,000 | \$ 1,111,000 | \$ 1,003,000 |

Depreciation and Amortization

Depreciation and amortization from continuing operations for the years ended December 31, 2005 and 2004 was approximately \$7,813,000 and \$7,394,000, respectively. The increase of approximately \$419,000, or 6%, was primarily due to the acquisition of The Lakes Apartments in August 2005 and was also due to the amortization of intangible assets, partially offset by the revision of our fixed asset lives subsequent to our acquisition of them for all our properties.

Depreciation and amortization from continuing operations for the years ended December 31, 2004 and 2003 was approximately \$7,394,000 and \$7,166,000, respectively. The increase of \$228,000, or 3%, was not significant and is not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income and Interest and Other Income Reimbursed to Affiliate

Interest and other income and interest and other income reimbursed to affiliate from continuing operations for the years ended December 31, 2005 and 2004 was approximately \$443,000 and \$1,604,000, respectively. The decrease of approximately \$1,161,000, or 72%, was primarily the result of a \$1,500,000 settlement payment received from NTS Development Company in 2004 in relation to the class action litigation settlement. The decrease was partially offset by interest received on the sweep account as well as the investment in the joint venture.

Interest and other income and interest and other income reimbursed to affiliate from continuing operations for the years ended December 31, 2004 and 2003 was \$1,604,000 and \$358,000, respectively. The increase of approximately \$1,246,000 was primarily the result of a \$1,500,000 settlement payment received from NTS Development Company in 2004 in relation to the class action litigation settlement.

Interest Expense and Interest Expense Reimbursed to Affiliate

Interest expense and interest expense reimbursed to affiliate from continuing operations for the years ended December 31, 2005 and 2004 was approximately \$7,231,000 and \$12,211,000, respectively. The decrease of approximately \$4,980,000, or 41%, was primarily the result of prepayment penalties and the disposing of loan costs not fully amortized as the result of early prepayment of debt at some of the commercial and multifamily properties, as well as lowered interest rates due to the refinancing of approximately \$94.0 million of debt in 2004. The decrease was partially offset by additional loan proceeds obtained in December 2004 and the first, third and fourth quarters of 2005.

Interest expense and interest expense reimbursed to affiliate from continuing operations for the years ended December 31, 2004 and 2003 was approximately \$12,211,000 and \$7,783,000 respectively. The increase of approximately \$4,428,000, or 57%, was primarily the result of prepayment penalties and the disposing of loan costs not fully amortized as the result of the early prepayment of debt at some of the commercial and multifamily properties. The increase was partially offset by decreased interest expense due to continued principal payments made on the mortgages and notes payable for some of the commercial and multifamily properties.

Loss on Disposal of Assets

Loss on disposal of assets from continuing operations for the years ended December 31, 2005 and 2004 can be attributed to assets that were not fully depreciated at the time of replacement, spread amongst the majority of our properties. The 2005 replacements included heating and air conditioning units, common area renovations, stairwell upgrades, access control upgrades, roof replacements, lighting upgrades and fire sprinkler replacements, amongst others.

Loss on disposal of assets from continuing operations for the years ended December 31, 2004 and 2003 can be attributed to assets that were not fully depreciated at the time of replacement, spread amongst the majority of our properties. The 2004 replacements included tenant improvements, roof replacements and HVAC replacements.

Income from Investment in Joint Venture

Income from investment in joint venture from continuing operations for the year ended December 31, 2005 can be attributed to the investment with an unaffiliated third-party investor which liquidated and ceased to exist in December 2005.

Discontinued Operations, Net

Discontinued operations, net for the years ended December 31, 2005 and 2004 were approximately \$745,000 and \$(11,000), respectively. The increase of approximately \$756,000 was primarily due to the prepayment penalty incurred in 2004 at Sabal Park Apartments due to early repayment of debt.

Discontinued operations, net for the years ended December 31, 2004 and 2003 were approximately \$(11,000) and \$925,000, respectively. The decrease of approximately \$936,000 was primarily due to the prepayment penalty incurred in 2004 at Sabal Park Apartments due to early repayment of debt.

Gain on Sale of Discontinued Operations

Gain on sale of discontinued operations for the year ended December 31, 2005 can be attributed to the sale of 1.92 acres of land at Outlets Mall. There were no gains on sales of assets in 2004 or 2003.

Contractual Obligations and Commercial Commitments

The following table represents our obligations and commitments to make future payments as of December 31, 2005 under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees.

| | <i>Payment Due by Period</i> | | | | |
|--|------------------------------|----------------------------|------------------------------|-------------------------------|-----------------------------|
| | <i>Total</i> | <i>Within One Year</i> | <i>One - Three Years</i> | <i>Three - Five Years</i> | <i>After Five Years</i> |
| Contractual Obligations | | | | | |
| Mortgages and notes payable | \$ 138,012,832 | \$ 2,431,144 | \$ 18,244,853 | \$ 9,760,166 | \$ 107,576,669 |
| Capital lease obligations | - | - | - | - | - |
| Operating leases (1)..... | - | - | - | - | - |
| Other long-term obligations (2) | - | - | - | - | - |
| Total contractual cash obligations..... | \$ 138,012,832 | \$ 2,431,144 | \$ 18,244,853 | \$ 9,760,166 | \$ 107,576,669 |

- (1) We are party to numerous small operating leases for office equipment such as copiers, postage machines and fax machines, which represent an insignificant obligation.
- (2) We are party to several annual maintenance agreements with vendors for such items as outdoor maintenance, pool service and security systems, which represent an insignificant obligation.

| | <i>Total Amounts Committed</i> | <i>Amount of Commitment Expiration Per Period</i> | | | |
|--|--|---|------------------------------|-------------------------------|-----------------------------|
| | | <i>Within One Year</i> | <i>One - Three Years</i> | <i>Three - Five Years</i> | <i>After Five Years</i> |
| Other Commercial Commitments | | | | | |
| Line of credit | \$ - | \$ - | \$ - | \$ - | \$ - |
| Standby letters of credit and guarantees | - | - | - | - | - |
| Other commercial commitments (1) | - | - | - | - | - |
| Total commercial commitments | \$ - | \$ - | \$ - | \$ - | \$ - |

- (1) We do not, as a practice, enter into long-term purchase commitments for commodities or services. We may from time to time agree to "fee for service arrangements" which are for a term of greater than one year.

The following describes each of our predecessors' results of operations on a historical basis for the period ended December 27, 2004 and the year ended December 31, 2003. No adjustment or reconciliation is necessary to compare the period from January 1, 2004 to December 27, 2004 to the year ended December 31, 2003 as our annual, quarterly and monthly operations were complete as of December 27, 2004.

NTS-PROPERTIES III RESULTS OF OPERATIONS

This section describes the results of operations for NTS-Properties III (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned three commercial properties. We generated almost all of our net operating income from property operations.

Net loss for the period ended December 27, 2004 was approximately \$(254,000) as compared to net income of approximately \$268,000 for the year ended December 31, 2003. The change in net income or loss is described in more detail below. The following tables include certain selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes attached hereto.

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Total revenues | \$ 3,811,008 | \$ 3,763,880 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 1,148,072 | 1,104,916 |
| Depreciation and amortization | 1,051,918 | 1,096,104 |
| Total interest expense..... | 1,104,216 | 433,874 |
| Net (loss) income | (253,950) | 268,144 |

Rental income and tenant reimbursements generated by our properties were as follows:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---------------------------------|---|---|
| NTS Center..... | \$ 1,106,207 | \$ 1,139,036 |
| Plainview Center | 1,340,769 | 1,236,267 |
| Peachtree Corporate Center..... | 1,364,032 | 1,388,577 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend.

The occupancy levels at our properties were as follows:

| | <i>December 27, 2004</i> | <i>December 31, 2003</i> |
|---------------------------------|------------------------------|------------------------------|
| NTS Center..... | 75% | 72% |
| Plainview Center | 83% | 78% |
| Peachtree Corporate Center..... | 90% | 83% |

We believe the changes in occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend.

The average occupancy levels at our properties were as follows:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---------------------------------|---|---|
| NTS Center..... | 74% | 76% |
| Plainview Center | 80% | 70% |
| Peachtree Corporate Center..... | 87% | 84% |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$3,811,000 and \$3,764,000, respectively. The increase of approximately \$47,000, or 1%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes. Rental income from affiliate was approximately \$295,000 for 2004 and 2003.

Year-ending occupancy percentages represent occupancy only on a specific date; therefore, the above analysis considers average occupancy percentages which are more representative of the entire year-to-date results.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Our operating expenses were approximately \$815,000 and \$806,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase of approximately \$9,000, or 1%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Our operating expenses reimbursed to affiliate were approximately \$333,000 and \$299,000 for the period ended December 27, 2004 and the year ended December 31, 2003. The increase of approximately \$34,000, or 11%, was primarily due to increased personnel costs.

Operating expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Our professional and administrative expenses were approximately \$385,000 and \$306,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase of approximately \$79,000, or 26%, was the result of costs incurred for legal and professional fees related to our merger.

Our professional and administrative expenses reimbursed to affiliate were approximately \$156,000 and \$143,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase of approximately \$13,000, or 9%, was the result of increased personnel costs.

Professional and administrative expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate consisted of approximately the following:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|-------------------------|---|---|
| Finance | \$ 40,000 | \$ 34,000 |
| Accounting | 69,000 | 61,000 |
| Investor Relations..... | 21,000 | 20,000 |
| Human Resources..... | 11,000 | 11,000 |
| Overhead | 15,000 | 17,000 |
| Total..... | \$ 156,000 | \$ 143,000 |

Depreciation and Amortization

Our depreciation and amortization was approximately \$1,052,000 and \$1,096,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The decrease of approximately \$44,000, or 4%, was not significant and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income

Interest and other income was approximately \$217,000 and \$18,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase of approximately \$199,000 was primarily due to the settlement payment received by the partnership in regards to the litigation filed by limited partners.

Interest Expense

Our interest expense was approximately \$1,104,000 and \$434,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase of approximately \$670,000 was primarily a result of prepayment penalties paid by NTS Center due to the early payoff of the mortgage loan. The increase is partially offset by continued principal payments made by Plainview Center. The mortgage loan at Plainview Center was paid in full, prior to the maturity date, without prepayment penalties.

Liquidity and Capital Resources

The majority of our cash flow was derived from operating activities. Cash flows used in investing activities consisted of amounts spent for capital improvements at our properties. Cash flows used in financing activities consisted of principal payments on mortgages payable and payment of loan costs.

The following table sets forth the cash provided by or used in operating activities, investing activities and financing activities for the period ended December 27, 2004 and the year ended December 31, 2003.

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Operating activities | \$ 1,284,744 | \$ 1,249,181 |
| Investing activities..... | (189,422) | (469,668) |
| Financing activities | (422,845) | (987,051) |
| Net increase (decrease) in cash and equivalents | \$ 672,477 | \$ (207,538) |

Cash Flow from Operating Activities

Net cash provided by operating activities increased from approximately \$1,249,000 for the year ended December 31, 2003 to approximately \$1,285,000 for the period ended December 27, 2004. The \$36,000 increase was a result of improved results from operations before the effect of the prepayment penalty paid by NTS Center.

Cash Flow from Investing Activities

Net cash flow used in investing activities decreased from approximately \$470,000 for the year ended December 31, 2003 to approximately \$189,000 for the period ended December 27, 2004. The \$281,000 decrease in net cash used was primarily due to a decrease in additions to land, buildings and amenities.

Cash Flow from Financing Activities

Net cash used in financing activities decreased from approximately \$987,000 for the year ended December 31, 2003 to approximately \$423,000 for the period ended December 27, 2004. The \$564,000 decrease was primarily due to the payoff of the mortgages payable as a result of the merger with NTS Realty.

Due to the fact that no distributions were made during 2004 or 2003, the table which presents that portion of the distributions that represents a return of capital in accordance with GAAP has been omitted.

NTS-PROPERTIES IV RESULTS OF OPERATIONS

This section describes our results of operations for NTS-Properties IV (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned two commercial properties, one multifamily property and had investments in five joint venture properties. We generated almost all of our net operating income from property operations. In order to evaluate our overall portfolio, management analyzed the operating performance of the properties based on operating segments, which included commercial and multifamily operations. The financial information of the operating segments was prepared consistent with the basis and manner in which our management internally disaggregated financial information for the purpose of decision making.

Net loss for the period ended December 27, 2004 was approximately \$(640,000) as compared to net income of approximately \$257,000 for the year ended December 31, 2003. The change in net income or loss is described in more detail below. The following table includes our selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes thereto.

The following table of segment data is provided:

| | <i>Period Ended December 27, 2004</i> | | | |
|---|---------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 1,049,296 | \$ 1,185,651 | \$ - | \$ 2,234,947 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 476,779 | 435,946 | - | 912,725 |
| Depreciation and amortization | 205,319 | 279,780 | 3,363 | 488,462 |
| Total interest expense | 536,784 | 15,853 | - | 552,637 |
| Net (loss) income | (319,369) | 299,290 | (620,321) | (640,400) |

| | <i>Year Ended December 31, 2003</i> | | | |
|---|-------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 1,139,765 | \$ 1,453,264 | \$ - | \$ 2,593,029 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 412,907 | 412,351 | - | 825,258 |
| Depreciation and amortization | 205,406 | 298,393 | 6,116 | 509,915 |
| Total interest expense | 211,536 | 52,361 | - | 263,897 |
| Net income (loss) | 165,857 | 512,435 | (420,926) | 257,366 |

During 2004, our net revenues for the multifamily segment decreased primarily due to lower average occupancy as well as decreased rental rates at The Willows of Plainview Phase I. Net revenues for the commercial segment decreased primarily due to decreased lease buy-out income at Plainview Point Office Center Phases I and II and decreased average occupancy at Commonwealth Business Center Phase I and Plainview Point Office Center Phases I and II. Operating expenses and operating expenses reimbursed to affiliate increased from 2003 to 2004 for both multifamily and commercial segments primarily due to personnel changes. Depreciation expense for the multifamily and commercial segments remained relatively stable for all years presented. Interest expense for the multifamily segment increased from 2003 to 2004 primarily due to the prepayment penalty paid by The Willows of Plainview Phase I. Interest expense for the commercial segment decreased primarily due to lower debt balances as well as repaying the Commonwealth Business Center Phase I loan in full in 2004. The expenses related to the litigation filed by limited partners as well as the settlement directed merger contributed to the partnership’s net losses.

Rental income and tenant reimbursements generated by our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| <u>Wholly-Owned Properties</u> | | |
| Commonwealth Business Center Phase I | \$ 687,926 | \$ 772,897 |
| Plainview Point Office Center Phases I and II | \$ 497,725 | \$ 680,367 |
| The Willows of Plainview Phase I | \$ 1,049,296 | \$ 1,139,765 |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| The Willows of Plainview Phase II (9.70%) | \$ 1,111,361 | \$ 1,232,075 |
| Golf Brook Apartments (3.97%) | \$ 2,953,352 | \$ 2,994,374 |
| Plainview Point Office Center Phase III (4.96%) | \$ 736,596 | \$ 513,219 |
| Blankenbaker Business Center 1A (29.61%) | \$ 949,011 | \$ 949,011 |
| Lakeshore Business Center Phase I (10.92%) | \$ 1,465,488 | \$ 1,520,509 |
| Lakeshore Business Center Phase II (10.92%) | \$ 1,407,525 | \$ 1,446,848 |
| Lakeshore Business Center Phase III (10.92%) | \$ 600,429 | \$ 409,107 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except for Plainview Point Office Center Phase III where there was a protracted period for the property to become fully leased again and Lakeshore Business Center Phase III where rental income and tenant reimbursements had gradually increased at this recently constructed property.

The occupancy levels at our properties and joint ventures were as follows:

| | <i><u>December 27, 2004</u></i> | <i><u>December 31, 2003</u></i> |
|--|-------------------------------------|-------------------------------------|
| <u>Wholly-Owned Properties</u> | | |
| Commonwealth Business Center Phase I | 53% | 88% |
| Plainview Point Office Center Phases I and II | 66% | 72% |
| The Willows of Plainview Phase I | 80% | 91% |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| The Willows of Plainview Phase II (9.70%) | 74% | 82% |
| Golf Brook Apartments (3.97%) | 98% | 93% |
| Plainview Point Office Center Phase III (4.96%) | 91% | 52% |
| Blankenbaker Business Center 1A (29.61%) | 100% | 100% |
| Lakeshore Business Center Phase I (10.92%) | 66% | 71% |
| Lakeshore Business Center Phase II (10.92%) | 75% | 79% |
| Lakeshore Business Center Phase III (10.92%) | 100% | 89% |

We believe the changes in occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except for Plainview Point Office Center Phase III where there was a protracted period for the property to become fully leased again and Lakeshore Business Center Phase III where occupancy had gradually increased at this recently constructed property.

The average occupancy levels at our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Wholly-Owned Properties | | |
| Commonwealth Business Center Phase I | 82% | 91% |
| Plainview Point Office Center Phases I and II | 73% | 84% |
| The Willows of Plainview Phase I | 86% | 93% |
| Joint Venture Properties (Ownership % on December 27, 2004) | | |
| The Willows of Plainview Phase II (9.70%) | 80% | 85% |
| Golf Brook Apartments (3.97%) | 96% | 93% |
| Plainview Point Office Center Phase III (4.96%) | 74% | 50% |
| Blankenbaker Business Center 1A (29.61%) | 100% | 100% |
| Lakeshore Business Center Phase I (10.92%) | 71% | 70% |
| Lakeshore Business Center Phase II (10.92%) | 77% | 81% |
| Lakeshore Business Center Phase III (10.92%) | 91% | 59% |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except for Plainview Point Office Center Phase III where there was a protracted period for the property to become fully leased again and Lakeshore Business Center Phase III where average occupancy had gradually increased at this recently constructed property.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$2,235,000 and \$2,593,000, respectively. The decrease of approximately \$358,000, or 14%, was primarily the result of decreased lease buy-out income at Plainview Point Office Center Phases I and II as well as decreased average occupancy at Plainview Point Office Center Phases I and II, Commonwealth Business Center Phase I and The Willows of Plainview Phase I.

Year-end occupancy percentages represent occupancy only on a specific date; therefore, the above analysis considers average occupancy percentages, which are more representative of the entire year's results.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$439,000 and \$451,000, respectively. The decrease of approximately \$12,000, or 3%, was not significant and was not indicative of any know trend of uncertainty. There were no offsetting material changes.

Operating expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$474,000 and \$374,000, respectively. The increase of approximately \$100,000, or 27%, from the year ended December 31, 2003 to the period ended December 27, 2004 was primarily due to changes in personnel costs.

Operating expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Professional and administrative expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$618,000 and \$390,000, respectively. The increase of approximately \$228,000, or 58%, was primarily the result of increased legal and professional fees incurred in relation to the litigation filed by limited partners and the settlement directed merger.

Professional and administrative expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$166,000 and \$147,000, respectively. The increase of approximately \$19,000, or 13%, was primarily the result of personnel changes.

Professional and administrative expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate consisted of the following:

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|-------------------------|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Finance | \$ 41,000 | \$ 34,000 |
| Accounting | 78,000 | 64,000 |
| Investor Relations..... | 21,000 | 21,000 |
| Human Resources..... | 11,000 | 11,000 |
| Overhead | 15,000 | 17,000 |
| Total..... | \$ 166,000 | \$ 147,000 |

Depreciation and Amortization

Depreciation and amortization for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$488,000 and \$510,000, respectively. The decrease of approximately \$22,000, or 4%, was not significant and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income

Interest and other income for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$212,000 and \$8,000, respectively. The increase of approximately \$204,000 was primarily due to the settlement payment received by the partnership in regards to the litigation filed by limited partners.

Interest Expense

Interest expense for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$553,000 and \$264,000, respectively. The increase of approximately \$289,000 was primarily the result of prepayment penalties paid by The Willows of Plainview Phase I in relation to the early payoff of their mortgage.

Loss on Disposal of Assets

The loss on disposal of assets for the period ended December 27, 2004 was primarily due to the retirement of assets at The Willows of Plainview Phase I that were not fully depreciated as well as a roof replacement at Plainview Point Office Center Phases I and II. The loss on disposal of assets for the year ended December 31, 2003 can be attributed to the retirement of assets at Plainview Point Office Center Phases I and II, primarily as the result of the roof replacement and tenant improvements. The loss represents the cost to retire assets which were not fully depreciated at the time of replacement.

Income or Loss from Investment in Joint Ventures

Income or loss from investment in joint ventures for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$(37,000) and \$119,000, respectively. The decrease of approximately \$156,000 was primarily due to increased net loss for the Lakeshore/University II Joint Venture and decreased net income at The Willows of Plainview Phase II, Blankenbaker Business Center 1A and Golf Brook Apartments. The decrease is partially offset by decreased net loss at Plainview Point Office Center Phase III.

Liquidity and Capital Resources

The majority of our cash flow was derived from operating activities. Cash flows provided by or used in investing activities consisted of our investment in joint ventures. Cash flows used in financing activities consisted of principal payments on mortgages payable and payment of loan costs.

The following table illustrates our cash flows used in or provided by operating activities, investing activities and financing activities:

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|---|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Operating activities | \$ 451,170 | \$ 771,734 |
| Investing activities..... | 12,088 | (74,294) |
| Financing activities | (566,573) | (604,929) |
| Net (decrease) increase in cash and equivalents | \$ (103,315) | \$ 92,511 |

Cash Flow from Operating Activities

Net cash provided by operating activities decreased from approximately \$772,000 for the year ended December 31, 2003 to approximately \$451,000 for the period ended December 27, 2004. The decrease of approximately \$321,000 was primarily due to decreased net income from operations as a result of increased expenses associated with litigation filed by limited partners and settlement directed merger costs. The decrease was partially offset by increased cash distributions from our investment in joint ventures.

Cash Flow from Investing Activities

Net cash provided by investing activities was approximately \$12,000 for the period ended December 27, 2004. Net cash used in investing activities was approximately \$74,000 for the year ended December 31, 2003. The change was primarily the result of increases in cash flows from our joint venture investments.

Cash Flow from Financing Activities

Net cash used in financing activities decreased from approximately \$605,000 for the year ended December 31, 2003 to approximately \$567,000 for the period ended December 27, 2004. The decrease of approximately \$38,000 was primarily the result of the payoff of The Willows of Plainview Phase I mortgages as a result of the merger with NTS Realty.

Due to the fact that no distributions were made during 2004 or 2003, the table which presents that portion of the distribution that represents a return of capital based on GAAP has been omitted.

NTS-PROPERTIES V RESULTS OF OPERATIONS

This section describes our results of operations for NTS-Properties V, a Maryland limited partnership (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned one commercial property and had investments in four joint venture properties. We generated almost all of our net operating income from property operations. In order to evaluate our overall portfolio, management analyzed the operating performance of the properties based on operating segments, which included commercial and multifamily operations. The financial information of the operating segments was prepared consistent with the basis and manner in which our management internally disaggregated financial information for the purpose of decision making.

Net loss for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$(1,931,000) and \$(662,000), respectively. The changes in net loss are described in more detail below. The following table includes our selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes thereto.

The following table of segment data is provided:

| | <i>Period Ended December 27, 2004</i> | | | |
|---|---------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 1,111,361 | \$ 3,876,319 | \$ - | \$ 4,987,680 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 531,975 | 1,390,906 | - | 1,922,881 |
| Depreciation and amortization | 258,567 | 1,049,785 | 15,074 | 1,323,426 |
| Total interest expense | 704,842 | 1,282,782 | 93,326 | 2,080,950 |
| Net loss | (548,923) | (777,008) | (605,376) | (1,931,307) |

| | <i>Year Ended December 31, 2003</i> | | | |
|---|-------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 1,232,075 | \$ 3,849,055 | \$ - | \$ 5,081,130 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 463,294 | 1,220,602 | - | 1,683,896 |
| Depreciation and amortization | 228,427 | 995,648 | 18,619 | 1,242,694 |
| Total interest expense | 278,086 | 678,678 | 20,362 | 977,126 |
| Net income (loss) | 101,020 | 36,307 | (799,591) | (662,264) |

During 2004, our net revenues for the multifamily segment decreased primarily due to decreased average occupancy and decreased average rental rate per unit. Net revenues for the commercial segment increased primarily due to higher average occupancy at Lakeshore Business Center Phase III as a result of our efforts to lease this recently constructed property. The increase was partially offset by decreased lease buy-out income at Lakeshore Business Center Phases I and II and decreased average occupancy at Commonwealth Business Center Phase II, where we were not successful in renewing several tenants' expired leases. Operating expenses and operating expenses reimbursed to affiliate increased for the multifamily segment primarily due to increased repairs and maintenance expenses and changes in personnel. Operating expenses and operating expenses reimbursed to affiliate increased for the commercial segment primarily due to increased bad debt expense at Lakeshore Business Center Phases I and II and changes in personnel at Commonwealth Business Center Phase II. Depreciation expense increased for both the multifamily and commercial segments as the result of fixed asset additions. Interest expense increased at both the multifamily and commercial segments as the result of prepayment penalties paid by The Willows of Plainview Phase II and Lakeshore Business Center Phases I and II for the early payoff of each of their mortgages. The expenses related to our ongoing litigation and proposed merger negatively impacted our partnership's net losses.

Rental income and tenant reimbursements generated by our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| <u>Wholly-Owned Properties</u> | | |
| Commonwealth Business Center Phase II | \$ 402,877 | \$ 472,591 |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| The Willows of Plainview Phase II (90.30%) | \$ 1,111,361 | \$ 1,232,075 |
| Lakeshore Business Center Phase I (81.19%) | \$ 1,465,488 | \$ 1,520,509 |
| Lakeshore Business Center Phase II (81.19%) | \$ 1,407,525 | \$ 1,446,848 |
| Lakeshore Business Center Phase III (81.19%) | \$ 600,429 | \$ 409,107 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Commonwealth Business Center Phase II and Lakeshore Business Center Phase III.

The occupancy levels at our properties and joint ventures were as follows:

| | <i><u>December 27, 2004</u></i> | <i><u>December 31, 2003</u></i> |
|--|-------------------------------------|-------------------------------------|
| <u>Wholly-Owned Properties</u> | | |
| Commonwealth Business Center Phase II | 56% | 62% |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| The Willows of Plainview Phase II (90.30%) | 74% | 82% |
| Lakeshore Business Center Phase I (81.19%) | 66% | 71% |
| Lakeshore Business Center Phase II (81.19%) | 75% | 79% |
| Lakeshore Business Center Phase III (81.19%) | 100% | 89% |

We believe the changes in occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Commonwealth Business Center Phase II and Lakeshore Business Center Phase III.

The average occupancy levels at our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| <u>Wholly-Owned Properties</u> | | |
| Commonwealth Business Center Phase II | 60% | 67% |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| The Willows of Plainview Phase II (90.30%) | 80% | 85% |
| Lakeshore Business Center Phase I (81.19%) | 71% | 70% |
| Lakeshore Business Center Phase II (81.19%) | 77% | 81% |
| Lakeshore Business Center Phase III (81.19%) | 91% | 59% |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Commonwealth Business Center Phase II and Lakeshore Business Center Phase III.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$4,988,000 and \$5,081,000, respectively. The decrease of approximately \$93,000, or 2%, was primarily the result of decreased lease buy-out income at Lakeshore Business Center Phases I and II as well as decreased average occupancy at The Willows of Plainview Phase II and Commonwealth Business Center Phase II. The decrease was partially offset by increased average occupancy at Lakeshore Business Center Phase III.

Year-end occupancy percentages represent occupancy only on a specific date; therefore, the above analysis considers average occupancy percentages, which are more representative of the entire year's results.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$1,294,000 and \$1,112,000, respectively. The increase of approximately \$182,000, or 16%, was primarily due to increased bad debt expense at Lakeshore Business Center Phases I and II. The increase can also be attributed to increased repairs and maintenance expenses at The Willows of Plainview Phase II and Lakeshore Business Center Phases I, II and III and increased cleaning expenses and exterior landscaping at Lakeshore Business Center Phases I, II and III. The increase was partially offset by decreased exterior landscaping at The Willows of Plainview Phase II and Commonwealth Business Center Phase II and decreased nonrecoverable professional services at Commonwealth Business Center Phase II and Lakeshore Business Center Phases II and III in relation to legal costs at the property level.

Operating expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$629,000 and \$572,000, respectively. The increase of approximately \$57,000, or 10%, was the result of changes in personnel costs.

Operating expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance and other services necessary to manage and operate our business.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Professional and administrative expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$845,000 and \$661,000, respectively. The increase of approximately \$184,000, or 28%, was primarily the result of increased legal and professional fees in relation to the litigation filed by limited partners and the settlement directed merger.

Professional and administrative expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$212,000 and \$187,000, respectively. The increase of approximately \$25,000, or 13%, was primarily the result of increased salary costs.

Professional and administrative expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate consisted of approximately the following:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|-------------------------|---|---|
| Finance | \$ 50,000 | \$ 41,000 |
| Accounting | 105,000 | 86,000 |
| Investor Relations..... | 25,000 | 26,000 |
| Human Resources..... | 13,000 | 13,000 |
| Overhead | 19,000 | 21,000 |
| Total..... | \$ 212,000 | \$ 187,000 |

Depreciation and Amortization

Depreciation and amortization for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$1,323,000 and \$1,243,000, respectively. The increase of approximately \$80,000, or 6%, was not significant and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income

Interest and other income for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$375,000 and \$127,000, respectively. The increase of approximately \$248,000 was primarily due to the settlement payment received by the partnership in regards to the litigation filed by limited partners.

Interest Expense

Interest expense for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$2,081,000 and \$977,000, respectively. The increase of approximately \$1,104,000 was primarily the result of prepayment penalties paid by The Willows of Plainview Phase II and Lakeshore Business Center Phases I and II for the early payoff of each of their mortgages.

Liquidity and Capital Resources

The majority of our cash flow was derived from operating activities. Cash flows used in investing activities consisted of amounts spent for capital improvements at our properties. Cash flows provided by financing activities consisted of advances to payoff mortgages payable.

The following table illustrates our cash flows provided by or used in operating activities, investing activities and financing activities:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Operating activities | \$ 463,347 | \$ 798,627 |
| Investing activities..... | (417,350) | (858,537) |
| Financing activities | 78,059 | 15,430 |
| Net increase (decrease) in cash and equivalents | \$ 124,056 | \$ (44,480) |

Cash Flow from Operating Activities

Net cash provided by operating activities was approximately \$463,000 for the period ended December 27, 2004, as compared to the year ended December 31, 2003 when operating activities provided approximately \$799,000. The change was primarily due to increased net operating loss which was negatively impacted by the costs of the ongoing litigation filed by limited partners, settlement directed merger costs and reimbursements of salary and overhead expenses due to NTS Development Company.

Cash Flow from Investing Activities

Net cash flow used in investing activities was approximately \$859,000 for the year ended December 31, 2003, as compared to approximately \$417,000 for the period ended December 27, 2004. The decrease of approximately \$442,000 was primarily due to decreased capital expenditures at Lakeshore Business Center Phase III.

Cash Flow from Financing Activities

Net cash flow provided by financing activities increased to approximately \$78,000 from \$15,000 for the period ended December 27, 2004 and the year ended December 31, 2003, respectively. The increase was primarily due to refinancing existing debt as a result of the merger with NTS Realty.

Due to the fact that no distributions were made during 2004 or 2003, the table which presents that portion of the distributions that represents a return of capital based on GAAP has been omitted.

NTS-PROPERTIES VI RESULTS OF OPERATIONS

This section describes our results of operations for NTS-Properties VI, a Maryland limited partnership (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned four multifamily properties and had investments in two joint venture properties. We generated almost all of our net operating income from property operations. In order to evaluate our overall portfolio, management analyzed the operating performance of the properties based on operating segments, which included commercial and multifamily operations. The financial information of the operating segments was prepared consistent with the basis and manner in which our management internally disaggregated financial information for the purpose of decision making.

Net loss for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$(1,985,000) and \$(1,507,000), respectively. The changes in net loss are described in more detail below. The following table includes our selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes thereto.

The following table of segment data is provided:

| | <i>Period Ended December 27, 2004</i> | | | |
|--|---------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 5,158,377 | \$ 736,596 | \$ - | \$ 5,894,973 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 2,032,244 | 337,778 | - | 2,370,022 |
| Depreciation and amortization | 1,513,466 | 225,704 | 78,771 | 1,817,941 |
| Total interest expense | 1,276,438 | 22,272 | 884,263 | 2,182,973 |
| (Loss) income from continuing operations | (291,932) | 46,396 | (1,729,324) | (1,974,860) |
| Discontinued operations, net | (10,569) | - | - | (10,569) |
| Net (loss) income | (302,501) | 46,396 | (1,729,324) | (1,985,429) |

| | <i>Year Ended December 31, 2003</i> | | | |
|--|-------------------------------------|-------------------|--------------------|--------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Partnership</i> | <i>Total</i> |
| Total revenues | \$ 5,429,722 | \$ 513,219 | \$ - | \$ 5,942,941 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 1,931,970 | 289,587 | - | 2,221,557 |
| Depreciation and amortization | 1,484,289 | 206,505 | 89,466 | 1,780,260 |
| Total interest expense | 464,814 | - | 1,646,668 | 2,111,482 |
| Income (loss) from continuing operations | 465,551 | (57,306) | (2,840,265) | (2,432,020) |
| Discontinued operations, net | 924,715 | - | - | 924,715 |
| Net income (loss) | 1,390,266 | (57,306) | (2,840,265) | (1,507,305) |

During 2004, our continuing net losses were negatively impacted by the expense related to our consolidation/merger costs. Net revenues decreased due to decreased average rent per unit at Park Place Apartments Phase I and Willow Lake Apartments and decreased average occupancy at Park Place Apartments Phase I. The decrease was partially offset by increased revenues at our commercial property, Plainview Point Office Center Phase III, as the result of increased average occupancy. Operating expenses increased as the result of increased repairs and maintenance costs at Willow Lake Apartments and Plainview Point Office Center Phase III. Operating expenses reimbursed to affiliate remained fairly stable.

Rental income and tenant reimbursements generated by our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| <u>Wholly-Owned Properties</u> | | |
| Sabal Park Apartments | \$ 1,954,657 | \$ 1,902,491 |
| Willow Lake Apartments | \$ 2,054,065 | \$ 2,190,889 |
| Park Place Apartments Phase I | \$ 1,583,409 | \$ 1,726,943 |
| Park Place Apartments Phase III | \$ 1,520,903 | \$ 1,511,890 |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| Golf Brook Apartments (96.03%) | \$ 2,953,352 | \$ 2,994,374 |
| Plainview Point Office Center Phase III (95.04%) | \$ 736,596 | \$ 513,219 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend.

The occupancy levels at our properties and joint ventures were as follows:

| | <i><u>December 27, 2004</u></i> | <i><u>December 31, 2003</u></i> |
|--|-------------------------------------|-------------------------------------|
| <u>Wholly-Owned Properties</u> | | |
| Sabal Park Apartments | 99% | 95% |
| Willow Lake Apartments | 87% | 79% |
| Park Place Apartments Phase I | 86% | 82% |
| Park Place Apartments Phase III | 85% | 93% |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| Golf Brook Apartments (96.03%) | 98% | 93% |
| Plainview Point Office Center Phase III (95.04%) | 91% | 52% |

We believe the changes in occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except for Plainview Point Office Center Phase III which had low occupancy for an extended period of time. During the fourth quarter of 2004, a tenant who leased approximately 8,300 square feet moved in, bringing the building's occupancy up to 91%.

The average occupancy levels at our properties and joint ventures were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| <u>Wholly-Owned Properties</u> | | |
| Sabal Park Apartments | 96% | 93% |
| Willow Lake Apartments | 86% | 85% |
| Park Place Apartments Phase I | 83% | 88% |
| Park Place Apartments Phase III | 90% | 93% |
| <u>Joint Venture Properties (Ownership % on December 27, 2004)</u> | | |
| Golf Brook Apartments (96.03%) | 96% | 93% |
| Plainview Point Office Center Phase III (95.04%) | 74% | 50% |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except for Plainview Point Office Center Phase III which had low occupancy for an extended period of time. During the fourth quarter of 2004, a tenant who leased approximately 8,300 square feet moved in, bringing the building's occupancy up to 91%.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$5,895,000 and \$5,943,000, respectively. The decrease of approximately \$48,000 was not a significant change, however, there were significant offsetting changes between our reporting segments. The decrease was made up of a net decrease in multifamily rental income as the result of decreased average rent per unit at Park Place Apartments Phase I and Willow Lake Apartments and decreased average occupancy at Park Place Apartments Phase I. The decrease was partially offset by increased commercial rental income at Plainview Point Office Center Phase III as the result of increased average occupancy.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$1,419,000 and \$1,309,000, respectively. The increase of approximately \$110,000, or 8% was the result of an increase in repairs and maintenance at Willow Lake Apartments and Plainview Point Office Center Phase III, increased landscaping costs at Willow Lake Apartments and increased cleaning costs at Willow Lake Apartments and Plainview Point Office Center Phase III. The increase was partially offset by decreased bad debt expense and administrative expenses at Willow Lake Apartments.

Operating expenses reimbursed to affiliate from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$951,000 and \$912,000, respectively. The increase of approximately \$39,000, or 4%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Operating expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance and other services necessary to manage and operate our business.

Property Taxes and Insurance

Property taxes and insurance from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003, were approximately \$435,000 and \$790,000, respectively. The decrease of approximately \$355,000, or 45%, was primarily due to decreased tax assessments at Willow Lake Apartments. We received notice of increased tax assessments in 2003 and retained a consultant to negotiate a reduction of the assessments. At Willow Lake Apartments, for 2003, we accrued property tax expense according to the assessed rate, not at the anticipated reduced rate. During the first and third quarters of 2004, we received notices of the reduction of the assessments and were able to adjust the periodic expense accordingly. We did not record a gain contingency for any property tax over-payments refunded in 2004.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Professional and administrative expenses from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$1,029,000 and \$763,000, respectively. The increase of approximately \$266,000, or 35%, was primarily the result of increased legal and professional fees related to our merger with NTS Realty. The increase was partially offset by a decrease in legal and professional fees related to litigation filed by limited partners.

Professional and administrative expenses reimbursed to affiliate from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$432,000 and \$395,000, respectively. The increase of approximately \$37,000, or 9%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Professional and administrative expenses reimbursed to affiliated are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate from continued operations consisted of approximately the following:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|-------------------------|---|---|
| Finance | \$ 140,000 | \$ 117,000 |
| Accounting | 150,000 | 130,000 |
| Investor Relations..... | 74,000 | 75,000 |
| Human Resources..... | 31,000 | 31,000 |
| Overhead | 37,000 | 42,000 |
| Total..... | \$ 432,000 | \$ 395,000 |

Depreciation and Amortization

Depreciation and amortization from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$1,818,000 and \$1,780,000, respectively. The increase of approximately \$38,000, or 2%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income

Interest and other income from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$744,000 and \$126,000, respectively. The increase of approximately \$618,000 was primarily the result of a settlement payment received from NTS Development Company in 2004. As part of the settlement of the litigation filed by limited partners, NTS Development Company agreed to pay the Partnerships upon the closing date of the merger. NTS Properties VI's portion of this was \$723,000. The increase was partially offset by income received in 2003, in relation to the litigation filed by limited partners.

Interest Expense

Interest expense from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$2,183,000 and \$2,111,000, respectively. The increase of \$72,000, or 3%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Loss on Disposal of Assets

Loss on disposal of assets from continued operations for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$5,000 and \$99,000, respectively. The decrease of approximately \$94,000, or 95%, was primarily the result of retirements made (before the assets were fully depreciated) at Willow Lake Apartments in 2003 for stair bracket replacements, security system installation and clubhouse renovation, partially offset by retirements made in 2004 for HVAC replacements at Willow Lake Apartments.

Discontinued Operations, Net

Discontinued operations, net for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$(11,000) and \$925,000, respectively. The decrease of approximately \$936,000 was primarily due to prepayment penalties incurred at Sabal Park Apartments as a result of the early prepayment of debt.

Liquidity and Capital Resources

The majority of our cash flow was typically derived from operating activities. Cash flows used in investing activities were for tenant improvements and other capital improvements at our properties. The tenant improvements and other capital additions were funded by cash flow from operations and from debt financing. Cash flows used in financing activities consisted of the early prepayment of debt, principal payments on mortgages and notes payable, and payment of loan costs.

The following table illustrates our cash flows provided by or used in operating activities, investing activities and financing activities:

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|--|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Operating activities | \$ 1,665,653 | \$ 1,518,719 |
| Investing activities..... | (770,830) | (787,801) |
| Financing activities | (358,174) | (1,664,390) |
| Net increase (decrease) in cash and equivalents | \$ 536,649 | \$ (933,472) |

Cash Flow from Operating Activities

Net cash provided by operating activities increased from approximately \$1,519,000 for the year ended December 31, 2003 to approximately \$1,666,000 for the period ended December 27, 2004. The increase was primarily a result of improved results from operations before the effect of the prepayment penalty paid by Sabal Park Apartments. The increase was partially offset by the change in accounts payable due to affiliate and other liabilities (as a result of the merger with NTS Realty, we were able to reimburse NTS Development Company for salary and overhead costs in December 2004 and we were able to pay current year property taxes).

Cash Flow from Investing Activities

Net cash used in investing activities decreased from approximately \$788,000 for the year ended December 31, 2003 to approximately \$771,000 for the period ended December 27, 2004. The decrease in net cash used was primarily due to decreased capital expenditures at the multifamily properties. Additions made in 2004 were for structural improvements at Park Place Apartments Phase I, roof replacements at Willow Lake Apartments, HVAC replacements and golf carts at Golf Brook Apartments and Sabal Park Apartments, playground and fitness equipment at Sabal Park Apartments and pool resurfacing at Golf Brook Apartments. Additions were made in 2003 for clubhouse renovation, a paving project and stair bracket replacements at Willow Lake Apartments. The decrease at the multifamily properties was partially offset by increased capital expenditures at our commercial property – Plainview Point Office Center Phase III. The 2004 additions at Plainview Point Office Center Phase III included tenant improvements and HVAC replacements. The 2003 additions at Plainview Point Office Center Phase III included tenant improvements.

Cash Flow from Financing Activities

Net cash used in financing activities was approximately \$1,664,000 for the year ended December 31, 2003 compared to approximately \$358,000 for the period ended December 27, 2004. The decrease in net cash used in financing activities was primarily the result of advances received from NTS Realty as a result of the merger.

Due to the fact that no distributions were made during 2004 or 2003, the table which presents that portion of the distributions that represents a return of capital based on GAAP has been omitted.

NTS-PROPERTIES VII RESULTS OF OPERATIONS

This section describes our results of operations for NTS-Properties VII, Ltd. (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned two multifamily properties and had investments in one joint venture property. We generated almost all of our net operating income from property operations.

Net loss for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$(333,000) and \$(170,000), respectively. The changes in net loss are described in more detail below. The following table includes our selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes thereto.

| | <i><u>Period Ended December 27,</u></i> | <i><u>Year Ended December 31,</u></i> |
|---|---|---|
| | <i><u>2004</u></i> | <i><u>2003</u></i> |
| Total revenues | \$ 1,571,552 | \$ 1,637,858 |
| Operating expenses and operating expenses reimbursed to affiliate | 629,559 | 623,543 |
| Depreciation and amortization | 408,391 | 407,690 |
| Total interest expense | (264,931) | (254,763) |
| Net loss | (332,902) | (170,319) |

Rental income and tenant reimbursements generated by our properties and joint venture were as follows:

| | <i><u>Period Ended December 27,</u></i> | <i><u>Year Ended December 31,</u></i> |
|--|---|---|
| | <i><u>2004</u></i> | <i><u>2003</u></i> |
| <u>Wholly-Owned Properties</u> | | |
| The Park at the Willows | \$ 321,060 | \$ 298,890 |
| Park Place Apartments Phase II | \$ 1,250,492 | \$ 1,338,968 |
| <u>Joint Venture Property (Ownership % on December 27, 2004)</u> | | |
| Blankenbaker Business Center 1A (31.34%) | \$ 949,011 | \$ 949,011 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property’s specific mix of lease maturities and were not indicative of any known trend.

The occupancy levels at our properties and joint venture were as follows:

| | <i><u>December 27,</u></i> | <i><u>December 31,</u></i> |
|--|----------------------------|----------------------------|
| | <i><u>2004</u></i> | <i><u>2003</u></i> |
| <u>Wholly-Owned Properties</u> | | |
| The Park at the Willows | 94% | 83% |
| Park Place Apartments Phase II | 88% | 83% |
| <u>Joint Venture Property (Ownership % on December 27, 2004)</u> | | |
| Blankenbaker Business Center 1A (31.34%) | 100% | 100% |

We believe the changes in occupancy from year to year were temporary effects of each property’s specific mix of lease maturities and were not indicative of any known trend.

The average occupancy levels at our properties and joint venture were as follows:

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Wholly-Owned Properties | | |
| The Park at the Willows | 90% | 81% |
| Park Place Apartments Phase II | 84% | 89% |
| Joint Venture Property (Ownership % on December 27, 2004) | | |
| Blankenbaker Business Center 1A (31.34%) | 100% | 100% |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend.

The lease at Blankenbaker Business Center 1A provided for the tenant to contribute toward the payment of common area maintenance expenses, insurance, utilities and real estate taxes. These lease provisions, along with the fact that multifamily leases were generally for a period of one year, should have protected our operations from the impact of inflation and changing prices.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income

Rental income for the period ended December 27, 2004 and year ended December 31, 2003 was approximately \$1,572,000 and \$1,638,000, respectively. The decrease of approximately \$66,000, or 4%, was primarily the result of decreased average occupancy at Park Place Apartments Phase II and a decrease in average income per unit at The Park at the Willows and Park Place Apartments Phase II. The decrease was partially offset by an increase in average occupancy at The Park at the Willows.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$346,000 and \$359,000, respectively. The decrease of approximately \$13,000, or 4%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Operating expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$283,000 and \$264,000, respectively. The increase of approximately \$19,000, or 7%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Operating expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

Professional and Administrative Expenses and Professional and Administrative Expenses Reimbursed to Affiliate

Professional and administrative expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$358,000 and \$278,000, respectively. The increase of approximately \$80,000, or 29%, was primarily the result of increased legal and professional fees related to our merger with NTS Realty.

Professional and administrative expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$142,000 and \$132,000, respectively. The increase of approximately \$10,000, or 8%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Professional and administrative expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include legal, financial and other services necessary to manage and operate our business.

Professional and administrative expenses reimbursed to affiliate consisted of approximately the following:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|-------------------------|---|---|
| Finance | \$ 25,000 | \$ 21,000 |
| Accounting | 83,000 | 75,000 |
| Investor Relations..... | 13,000 | 13,000 |
| Human Resources..... | 7,000 | 8,000 |
| Overhead | 14,000 | 15,000 |
| Total | \$ 142,000 | \$ 132,000 |

Depreciation and Amortization

Depreciation and amortization for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$408,000 and \$408,000, respectively. There was no change between the period ended December 27, 2004 and the year ended December 31, 2003. There were no offsetting material changes.

Interest and Other Income

Interest and other income for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$31,000 and \$7,000, respectively. The increase of approximately \$24,000 was primarily the result of a settlement payment received from NTS Development Company in 2004 with no similar income in 2003. The increase was partially offset by decreased interest income as a result of maintaining lower balances in our bank accounts in 2004.

Interest Expense

Interest expense for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$265,000 and \$255,000, respectively. The increase of approximately \$10,000, or 4%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Income from Investment in the Joint Venture

Income from investment in the joint venture for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$78,000 and \$88,000, respectively. The decrease of approximately \$10,000, or 11%, was primarily the result of increased depreciation expense and operating expenses, net of decreased loss on disposal of assets and interest expense at Blankenbaker Business Center 1A.

Liquidity and Capital Resources

The majority of our cash flow was typically derived from operating activities. Cash flows used in operating activities in 2004 consisted of amounts spent to reimburse NTS Development for fees owed to them and for amounts spent on legal expenses for the merger with NTS Realty and for litigation. Cash flows used in investing activities consisted of amounts spent for capital improvements at our properties. Cash flows provided by investing activities represented a decreased investment in our joint venture, Blankenbaker Business Center 1A. Cash flows used in financing activities consisted of the early prepayment of debt net of funds received as part of the merger with NTS Realty in 2004 and principal payments on mortgages payable.

The following table illustrates our cash flows provided by or used in operating activities, investing activities and financing activities:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| Operating activities | \$ (90,391) | \$ 274,452 |
| Investing activities..... | 100,084 | (238,129) |
| Financing activities | (87,258) | (155,201) |
| Net decrease in cash and equivalents | \$ (77,565) | \$ (118,878) |

Cash Flow from Operating Activities

Net cash provided by operating activities was approximately \$274,000 for the year ended December 31, 2003. For the period ended December 27, 2004, we used approximately \$90,000 in net cash for operating activities. The increase in net cash used was primarily driven by the reduced results of operations and the change in accounts payable due to affiliate (as a result of the merger we were able to reimburse NTS Development Company for salary and overhead costs in December 2004) and accounts payable.

Cash Flow from Investing Activities

For the year ended December 31, 2003, we used approximately \$238,000 in net cash for investing activities. Net cash provided by investing activities was approximately \$100,000 for the period ended December 27, 2004. The increase in net cash provided was primarily the result of decreased capital expenditures at Park Place Apartments Phase II which was partially offset by increased capital expenditures at The Park at the Willows, and the decreased investment in the joint venture due to the advance from NTS Realty.

Cash Flow from Financing Activities

Net cash used in financing activities decreased from approximately \$155,000 for the year ended December 21, 2003 to approximately \$87,000 for the period ended December 27, 2004. The decrease was primarily due to the payoff of debt as a result of the merger with NTS Realty and payment of property taxes net of the cash used for the actual payment of the debt.

Due to the fact that no distributions were made during 2004 or 2003, the table which presents that portion of the distributions that represents a return of capital based on GAAP has been omitted.

NTS PRIVATE GROUP
RESULTS OF OPERATIONS

This section describes our results of operations for NTS Private Group (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned three retail properties, eight commercial properties and operated a land lease. We generated almost all of our net operating income from property operations. In order to evaluate our overall portfolio, management analyzed the operating performance of the properties based on operating segments, which included retail and commercial real estate operations and land leases. The financial information of the operating segments was prepared consistent with the basis and manner in which our management internally disaggregated financial information for the purpose of decision making.

Net loss for the period ended December 27, 2004 was approximately \$(2,159,000) as compared to net income of approximately \$1,177,000 for the year ended December 31, 2003, respectively. The changes in net income or loss are described in more detail below. The following tables include certain selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes attached hereto.

| | <i>Period Ended December 27, 2004</i> | | | |
|---|---------------------------------------|---------------|-------------------|--------------|
| | <i>Land</i> | <i>Retail</i> | <i>Commercial</i> | <i>Total</i> |
| Total revenues | \$ 45,087 | \$ 1,358,242 | \$ 7,870,240 | \$ 9,273,569 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 1,133 | 225,740 | 2,100,847 | 2,327,720 |
| Depreciation and amortization | 5,087 | 315,343 | 1,686,923 | 2,007,353 |
| Total interest expense | - | 423,166 | 5,432,268 | 5,855,434 |
| Net income (loss) | 3,293 | 240,684 | (2,403,036) | (2,159,059) |

| | <i>Year Ended December 31, 2003</i> | | | |
|---|-------------------------------------|---------------|-------------------|--------------|
| | <i>Land</i> | <i>Retail</i> | <i>Commercial</i> | <i>Total</i> |
| Total revenues | \$ 53,537 | \$ 1,370,517 | \$ 7,845,380 | \$ 9,269,434 |
| Operating expenses and operating expenses | | | | |
| reimbursed to affiliate | 2,261 | 86,186 | 1,940,145 | 2,028,592 |
| Depreciation and amortization | 5,087 | 293,497 | 1,617,913 | 1,916,497 |
| Total interest expense | 238 | 451,724 | 2,490,612 | 2,942,574 |
| Net income | 22,070 | 409,606 | 745,817 | 1,177,493 |

During 2004, our revenues for the commercial segment increased slightly due to increased average occupancy at Springs Office Center and Springs Medical Office Center. This increase was partially offset by decreased average occupancy at Atrium Center and Blankenbaker Business Center II as a result of unsuccessful attempts to renew tenants’ expired leases. Our revenues for the retail segment decreased slightly due primarily to decreased recoverable operating expenses incurred in 2004. The decrease was partially offset by increased average occupancy at Springs Station. Our revenues for the land segment also decreased slightly due to decreased rental rates for 2004.

Rental income and tenant reimbursements generated by our properties were as follows:

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|--------------------------------------|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Anthem Office Center | \$ 810,692 | \$ 810,692 |
| Atrium Center..... | 789,858 | 1,011,176 |
| Sears Office Building..... | 785,300 | 757,506 |
| Springs Medical Office Center | 1,680,865 | 1,556,473 |
| Springs Office Center..... | 2,048,589 | 1,870,711 |
| Blankenbaker Business Center 1B..... | 577,686 | 577,686 |
| Blankenbaker Business Center II..... | 632,406 | 720,075 |
| Clarke American | 544,844 | 541,062 |
| Bed, Bath & Beyond | 423,091 | 447,685 |
| Outlets Mall..... | 665,887 | 662,838 |
| Springs Station | 269,264 | 259,993 |
| ITT Parking Lot..... | 45,087 | 53,537 |

We believe the changes in rental income and tenant reimbursements from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Atrium Center and Blankenbaker Business Center II.

The occupancy levels at our properties were as follows:

| | <i>December 27,</i> | <i>December 31,</i> |
|--------------------------------------|---------------------|---------------------|
| | <i>2004</i> | <i>2003</i> |
| Anthem Office Center | 100% | 100% |
| Atrium Center..... | 67% | 62% |
| Sears Office Building..... | 100% | 100% |
| Springs Medical Office Center | 89% | 90% |
| Springs Office Center..... | 96% | 97% |
| Blankenbaker Business Center 1B..... | 100% | 100% |
| Blankenbaker Business Center II..... | 76% | 90% |
| Clarke American | 100% | 100% |
| Bed, Bath & Beyond | 100% | 100% |
| Outlets Mall..... | 100% | 100% |
| Springs Station | 92% | 100% |
| ITT Parking Lot..... | N/A | N/A |

We believe the changes in occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Atrium Center and Blankenbaker Business Center II.

The average occupancy levels at our properties were as follows:

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|--------------------------------------|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Anthem Office Center | 100% | 100% |
| Atrium Center..... | 55% | 66% |
| Sears Office Building..... | 100% | 100% |
| Springs Medical Office Center | 93% | 91% |
| Springs Office Center..... | 97% | 90% |
| Blankenbaker Business Center 1B..... | 100% | 100% |
| Blankenbaker Business Center II..... | 78% | 90% |
| Clarke American | 100% | 100% |
| Bed, Bath & Beyond | 100% | 100% |
| Outlets Mall..... | 100% | 100% |
| Springs Station | 97% | 94% |
| ITT Parking Lot..... | N/A | N/A |

We believe the changes in average occupancy from year to year were temporary effects of each property's specific mix of lease maturities and were not indicative of any known trend, except as described above for Atrium Center and Blankenbaker Business Center II.

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$9,274,000 and \$9,269,000, respectively. The increase of approximately \$5,000 was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Year-ending occupancy percentages represent occupancy only on a specific date; therefore, the above analysis considers average occupancy percentages which are more representative of the entire year-to-date results.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$1,582,000 and \$1,379,000, respectively. The increase of approximately \$203,000, or 15%, was primarily due to increased bad debt expense at Outlets Mall due to the tenant declaring bankruptcy during February 2004.

Operating expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$746,000 and \$650,000, respectively. The increase of approximately \$96,000, or 15%, was primarily due to increased personnel costs.

Operating expenses reimbursed to affiliate are for the services performed by employees of NTS Development Company, an affiliate of ours. These employee services include property management, leasing, maintenance, security and other services necessary to manage and operate our business.

Professional and Administrative Expenses

Professional and administrative expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$158,000 and \$116,000, respectively. The increase of approximately \$42,000, or 36%, was the result of costs incurred for legal and professional fees.

Depreciation and Amortization

Depreciation and amortization for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$2,007,000 and \$1,916,000, respectively. The increase of approximately \$91,000, or 5%, was not significant and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Interest and Other Income

Interest and other income for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$23,000 and \$73,000, respectively. The decrease of approximately \$50,000, or 68%, was primarily the result of decreased balances due from affiliate and the notes being paid in their entirety by NTS Financial Partnership on June 30, 2003.

Interest Expense

Interest expense for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$5,855,000 and \$2,943,000, respectively. The increase of approximately \$2,912,000 was primarily a result of prepayment penalties paid by Atrium Center, Anthem Office Center, Blankenbaker Business Center 1B, Blankenbaker Business Center II, Springs Medical Office Center and Springs Office Center due to the early payoff of their mortgage loans and note payable. The increase was partially offset by continued principal payments made by Outlets Mall, Springs Station, Clarke American and Bed, Bath & Beyond and to decreased balances due to affiliate and the notes being paid in their entirety to NTS Financial Partnership on June 30, 2003. The mortgage loans at Outlets Mall and Springs Station were paid in full, prior to their maturity date, without prepayment penalties.

Loss on Disposal of Assets

The loss on disposal of assets for the period ended December 27, 2004 was primarily due to the retirement of the roof, which was not fully depreciated, at Blankenbaker Business Center 1B. The loss on disposal of assets for the year ended December 31, 2003 was primarily due to the retirements of assets (primarily tenant improvements) not fully depreciated at Springs Office Center.

Liquidity and Capital Resources

This section describes our balance sheet and discusses our liquidity and capital commitments. Our most liquid asset was our cash and cash equivalents which consisted of cash and short-term investments, but did not include our cash which was restricted. Our historical cash and cash equivalents as of December 27, 2004 was \$255,476. Operating income generated from our properties was the primary source from which we generate cash. Other sources of cash included proceeds from mortgage loans and notes payable. Below is a chart which reflects our cash flow from operating, investing and financing activities for the period ended December 27, 2004 and the year ended December 31, 2003 followed by a comparison of the respective periods.

| | <i>Period Ended December 27,</i> | <i>Year Ended December 31,</i> |
|---|--------------------------------------|------------------------------------|
| | <i>2004</i> | <i>2003</i> |
| Operating activities | \$ 3,156,716 | \$ 3,591,774 |
| Investing activities..... | (837,669) | 4,977,401 |
| Financing activities | (2,503,620) | (8,560,750) |
| Net (decrease) increase in cash and equivalents | \$ (184,573) | \$ 8,425 |

Cash Flow from Operating Activities

Net cash provided by operating activities decreased from approximately \$3,592,000 for the year ended December 31, 2003 to approximately \$3,157,000 for the period ended December 27, 2004. The decrease was a result of decreased cash provided by results of operations primarily due to increased expenses incurred in relation to the merger with NTS Realty.

Cash Flows from Investing Activities

Net cash flow used in investing activities was approximately \$838,000 for the period ended December 27, 2004. Net cash flow provided by investing activities for the year ended December 31, 2003 was approximately \$4,977,000. The change was primarily due to cash payments received in 2003 from affiliates of approximately \$6,200,000 for notes receivable.

Cash Flows from Financing Activities

Net cash used in financing activities was approximately \$2,504,000 for the period ended December 27, 2004. Net cash used in financing activities for the year ended December 31, 2003 was approximately \$8,561,000. The change was primarily due to the payoff of certain mortgages as a result of the merger with NTS Realty and was also due to cash payments made in 2003 to affiliates of approximately \$6,700,000 on notes payable.

BLANKENBAKER BUSINESS CENTER 1A
RESULTS OF OPERATIONS

This section describes our results of operations for Blankenbaker Business Center 1A (referred to in this discussion as “we,” “us” or “our”) for the period ended December 27, 2004 and the year ended December 31, 2003. We owned one commercial property. We generated almost all of our net operating income from property operations.

Net income for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$247,000 and \$280,000, respectively. The changes in net income are described in more detail below. The following table includes our selected summarized operating data for the period ended December 27, 2004 and the year ended December 31, 2003. This data should be read in conjunction with our financial statements, including the notes thereto.

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Total revenues | \$ 949,011 | \$ 949,011 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 175,631 | 154,472 |
| Depreciation and amortization | 296,039 | 213,040 |
| Total interest expense..... | 107,697 | 131,736 |
| Net income | 247,498 | 280,014 |

During 2004 and 2003, net revenues remained relatively stable. Operating expenses and operating expenses reimbursed to affiliate increased primarily due to increased prepaid leasing commissions amortization as the result of the sole tenant renewing their expiring lease in January 2005. Depreciation and amortization also increased as the result of a change in estimate, by management, of the useful lives of the leasehold improvements of the sole tenant at Blankenbaker Business Center 1A. The leasehold improvements became fully depreciated at December 27, 2004 as the result of the sole tenant renewing their expiring lease in January 2005. Interest expense decreased primarily due to continued principal payments made on the mortgage. The mortgage was repaid in full in December 2004 in relation to the merger with NTS Realty. Our net income decreased primarily as the result of increased operating costs and depreciation and amortization.

Rental income and tenant reimbursements generated by our property were as follows:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--------------------------------------|---|---|
| Blankenbaker Business Center 1A..... | \$ 949,011 | \$ 949,011 |

The occupancy levels at our property were as follows:

| | <i>December 27, 2004</i> | <i>December 31, 2003</i> |
|--------------------------------------|------------------------------|------------------------------|
| Blankenbaker Business Center 1A..... | 100% | 100% |

The average occupancy levels at our property were as follows:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--------------------------------------|---|---|
| Blankenbaker Business Center 1A..... | 100% | 100% |

The following discussion relating to changes in our results of operations includes only those line items within our Statements of Operations for which there was a material change between the period ended December 27, 2004 and the year ended December 31, 2003.

Rental Income and Tenant Reimbursements

Rental income and tenant reimbursements for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$949,000 and \$949,000, respectively. There was no change between the year ended December 31, 2003 to the period ended December 27, 2004.

Operating Expenses and Operating Expenses Reimbursed to Affiliate

Operating expenses for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$130,000 and \$111,000, respectively. The increase of approximately \$19,000, or 17%, was primarily due to an increase in prepaid leasing commissions amortization as the result of the sole tenant renewing their expiring lease in January 2005. The lease commissions were fully amortized as of December 27, 2004. The increase can also be attributed to an increase in income tax expense, partially offset by a decrease in repairs and maintenance expense.

Operating expenses reimbursed to affiliate for the period ended December 27, 2004 and the year ended December 31, 2003 were approximately \$46,000 and \$43,000, respectively. The increase of approximately \$3,000, or 7%, was not a significant change and was not indicative of any known trend or uncertainty. There were no offsetting material changes.

Operating expenses reimbursed to affiliate are for services performed by employees of NTS Development Company, an affiliate of our general partner. These employee services include property management, leasing, maintenance and other services necessary to manage and operate our business.

Depreciation and Amortization

Depreciation and amortization for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$296,000 and \$213,000, respectively. The increase of approximately \$83,000, or 39%, was primarily due to a change in estimate, by management, of the useful lives of the tenant improvements of the sole tenant at Blankenbaker Business Center 1A. The tenant improvements became fully depreciated at December 27, 2004 as the result of the sole tenant renewing its expiring lease in January 2005.

Interest Expense

Interest expense for the period ended December 27, 2004 and the year ended December 31, 2003 was approximately \$108,000 and \$132,000, respectively. The decrease of approximately \$24,000, or 18%, was primarily due to continued principal payments made on the mortgage in 2004. The mortgage was paid in full in December 2004 in relation to the merger with NTS Realty.

Loss on Disposal of Assets

The 2003 loss on disposal of assets can be attributed to the retirement of the roof at Blankenbaker Business Center 1A. The loss represents the cost to retire assets, which were not fully depreciated at the time of replacement.

Liquidity and Capital Resources

The following table sets forth the cash provided by or used in operating activities, investing activities and financing activities for the period ended December 27, 2004 and the year ended December 31, 2003.

| | <u><i>Period Ended December 27, 2004</i></u> | <u><i>Year Ended December 31, 2003</i></u> |
|--|--|--|
| Operating activities | \$ 951,226 | \$ 571,137 |
| Investing activities..... | (26,379) | (155,022) |
| Financing activities | (656,433) | (425,093) |
| Net increase (decrease) in cash and equivalents | \$ 268,414 | \$ (8,978) |

Cash Flow from Operating Activities

Net cash provided by operating activities increased from approximately \$571,000 for the year ended December 31, 2003 to approximately \$951,000 for the period ended December 27, 2004, primarily due to cash generated by operating results.

Cash Flow from Investing Activities

Net cash used in investing activities decreased from approximately \$155,000 for the year ended December 31, 2003 to approximately \$26,000 for the period ended December 27, 2004, primarily due to decreased capital expenditures as the result of replacing the roof in 2003.

Cash Flow from Financing Activities

Net cash used in financing activities increased from approximately \$425,000 for the year ended December 31, 2003 to approximately \$656,000 for the period ended December 27, 2004, primarily due to the payoff of the mortgage as a result of the merger with NTS Realty.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure with regard to financial instruments is our exposure to changes in interest rates. We refinanced substantially all of our debt at the time of our merger with instruments which bear interest at a fixed rate with the exception of an approximate \$14.0 million mortgage. We anticipate that a hypothetical 100 basis point increase in interest rates would result in an approximate \$7.0 million decrease in the fair value of our fixed rate debt while increasing interest expense on our variable rate debt by approximately \$138,000 annually.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

NTS Realty Holdings Limited Partnership:

We have audited the accompanying balance sheets of NTS Realty Holdings Limited Partnership (the "Company") as of December 31, 2005 and 2004 and the related statements of operations, partners' equity and cash flows for the years then ended. We have also audited the accompanying statements of operations, partners' equity and cash flows for the period from January 1, 2004 through December 27, 2004 and for the year ended December 31, 2003 of NTS-Properties III, NTS-Properties IV, NTS-Properties V, a Maryland limited partnership, NTS-Properties VI, a Maryland limited partnership, NTS-Properties VII, Ltd., NTS Private Group and Blankenbaker Business Center 1A Joint Venture (collectively, "Predecessors to the Company"). Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NTS Realty Holdings Limited Partnership at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended and the results of operations and cash flows for the period from January 1, 2004 through December 27, 2004 and for the year ended December 31, 2003 of NTS-Properties III, NTS-Properties IV, NTS-Properties V, a Maryland limited partnership, NTS-Properties VI, a Maryland limited partnership, NTS-Properties VII, Ltd., NTS Private Group and Blankenbaker Business Center 1A Joint Venture in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Louisville, Kentucky
March 27, 2006

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
Balance Sheets as of December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|-----------------------|
| ASSETS: | | |
| Cash and equivalents..... | \$ 5,409,318 | \$ 2,573,855 |
| Cash and equivalents - restricted | 1,260,937 | 313,255 |
| Accounts receivable, net of allowance for doubtful accounts of \$342,002 at December 31, 2005 and \$125,485 at December 31, 2004..... | 2,200,461 | 1,594,780 |
| Deposits | 2,800,000 | - |
| Land, buildings and amenities, net | 148,626,244 | 133,296,746 |
| Long-lived assets held for sale..... | 22,545,123 | 23,294,192 |
| Other assets | <u>4,966,740</u> | <u>5,474,596</u> |
| Total assets | <u>\$ 187,808,823</u> | <u>\$ 166,547,424</u> |
| LIABILITIES: | | |
| Mortgages and notes payable..... | \$ 138,012,832 | \$ 112,799,938 |
| Accounts payable and accrued expenses | 2,801,960 | 2,588,663 |
| Accounts payable and accrued expenses due to affiliate..... | 373,138 | 177,879 |
| Distributions payable | 2,276,321 | - |
| Security deposits | 794,727 | 564,315 |
| Long-lived liabilities held for sale | 222,575 | 112,350 |
| Other liabilities | <u>1,277,075</u> | <u>774,294</u> |
| Total liabilities | 145,758,628 | 117,017,439 |
| COMMITMENTS AND CONTINGENCIES (NOTE 9) | | |
| PARTNERS' EQUITY | <u>42,050,195</u> | <u>49,529,985</u> |
| Total liabilities and partners' equity | <u>\$ 187,808,823</u> | <u>\$ 166,547,424</u> |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
Statements of Operations for the Years Ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|------------------------------|------------------------------|
| REVENUE: | | |
| Rental income..... | \$ 27,711,557 | \$ - |
| Tenant reimbursements | <u>2,196,457</u> | <u>-</u> |
| Total revenue | 29,908,014 | - |
| EXPENSES: | | |
| Operating expenses | 6,724,824 | - |
| Operating expenses reimbursed to affiliate | 3,278,271 | - |
| Management fees..... | 1,400,065 | - |
| Property taxes and insurance..... | 2,847,529 | - |
| Professional and administrative expenses..... | 2,757,081 | 312,027 |
| Professional and administrative expenses reimbursed to affiliate..... | 1,416,818 | 2,543 |
| Depreciation and amortization | <u>7,812,769</u> | <u>-</u> |
| Total operating expenses | <u>26,237,357</u> | <u>314,570</u> |
| OPERATING INCOME (LOSS)..... | 3,670,657 | (314,570) |
| Interest and other income | 443,164 | 2,978 |
| Interest expense | (7,230,978) | (61,689) |
| Settlement charge | - | (2,896,259) |
| Loss on disposal of assets | (619,768) | - |
| Income from investment in joint venture..... | <u>953,300</u> | <u>-</u> |
| LOSS FROM CONTINUING OPERATIONS | (2,783,625) | (3,269,540) |
| Discontinued operations, net..... | 745,238 | - |
| Gain on sale of discontinued operations | <u>270,842</u> | <u>-</u> |
| NET LOSS..... | \$ <u>(1,767,545)</u> | \$ <u>(3,269,540)</u> |
| Loss from continuing operations allocated to limited partners | \$ (2,608,881) | \$ (3,064,291) |
| Discontinued operations, net allocated to limited partners..... | 698,455 | - |
| Gain on sale of discontinued operations allocated to limited partners | <u>253,840</u> | <u>-</u> |
| NET LOSS ALLOCATED TO LIMITED PARTNERS | \$ <u>(1,656,586)</u> | \$ <u>(3,064,291)</u> |
| Loss from continuing operations per limited partnership unit..... | \$ (0.25) | \$ (0.29) |
| Discontinued operations, net per limited partnership unit..... | 0.07 | - |
| Gain on sale of discontinued operations per limited partnership unit | <u>0.02</u> | <u>-</u> |
| NET LOSS PER LIMITED PARTNERSHIP UNIT | \$ <u>(0.16)</u> | \$ <u>(0.29)</u> |
| Number of limited partnership interests | <u>10,667,117</u> | <u>10,667,117</u> |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statements of Operations for the Period from January 1, 2004 to December 27, 2004

| | NTS Properties III | NTS Properties IV | NTS Properties V | NTS Properties VI | NTS Properties VII | NTS Private Group | BBC 1A |
|--|--------------------------|-------------------------|------------------------|-------------------------|--------------------------|-------------------------|-------------------|
| REVENUE: | | | | | | | |
| Rental income | \$ 3,456,002 | \$ 2,064,585 | \$ 3,831,453 | \$ 5,893,362 | \$ 1,571,552 | \$ 8,768,235 | \$ 752,787 |
| Tenant reimbursements | <u>355,006</u> | <u>170,362</u> | <u>1,156,227</u> | <u>1,611</u> | <u>-</u> | <u>505,334</u> | <u>196,224</u> |
| Total revenue | 3,811,008 | 2,234,947 | 4,987,680 | 5,894,973 | 1,571,552 | 9,273,569 | 949,011 |
| EXPENSES: | | | | | | | |
| Operating expenses | 815,311 | 439,091 | 1,293,516 | 1,419,006 | 346,078 | 1,581,528 | 130,111 |
| Operating expenses reimbursed to affiliate | 332,761 | 473,634 | 629,365 | 951,016 | 283,481 | 746,192 | 45,520 |
| Management fees | 181,963 | 125,242 | 276,476 | 306,370 | 79,390 | 559,082 | 56,946 |
| Property taxes and insurance | 254,310 | 174,463 | 839,609 | 434,849 | 128,001 | 508,716 | 65,296 |
| Professional and administrative expenses | 384,521 | 617,953 | 844,738 | 1,029,137 | 358,214 | 158,374 | - |
| Professional and administrative expenses reimbursed to affiliate | 155,872 | 166,250 | 212,127 | 432,158 | 142,424 | - | - |
| Depreciation and amortization | <u>1,051,918</u> | <u>488,462</u> | <u>1,323,426</u> | <u>1,817,941</u> | <u>408,391</u> | <u>2,007,353</u> | <u>296,039</u> |
| Total operating expenses | 3,176,656 | 2,485,095 | 5,419,257 | 6,390,477 | 1,745,979 | 5,561,245 | 593,912 |
| OPERATING INCOME (LOSS) | 634,352 | (250,148) | (431,577) | (495,504) | (174,427) | 3,712,324 | 355,099 |
| Interest and other income | 217,175 | 211,508 | 374,782 | 744,164 | 30,591 | 22,757 | 96 |
| Interest expense | (1,104,216) | (552,637) | (2,080,950) | (2,182,973) | (264,931) | (5,855,434) | (107,697) |
| Loss on disposal of assets | (1,261) | (12,200) | (6,181) | (4,986) | (1,700) | (38,706) | - |
| (Loss) income from investment in joint ventures | <u>-</u> | <u>(36,923)</u> | <u>-</u> | <u>-</u> | <u>77,565</u> | <u>-</u> | <u>-</u> |
| (Loss) income before minority interest | (253,950) | (640,400) | (2,143,926) | (1,939,299) | (332,902) | (2,159,059) | 247,498 |
| Minority interest | <u>-</u> | <u>-</u> | <u>(212,619)</u> | <u>35,561</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (Loss) income from continuing operations | (253,950) | (640,400) | (1,931,307) | (1,974,860) | (332,902) | (2,159,059) | 247,498 |
| Discontinued operations, net | <u>-</u> | <u>-</u> | <u>-</u> | <u>(10,569)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET (LOSS) INCOME | \$ (253,950) | \$ (640,400) | \$ (1,931,307) | \$ (1,985,429) | \$ (332,902) | \$ (2,159,059) | \$ 247,498 |
| Loss from continuing operations allocated to limited partners | \$ (204,535) | \$ (633,996) | \$ (1,911,994) | \$ (1,955,111) | \$ (329,573) | | |
| Discontinued operations, net allocated to limited partners | <u>-</u> | <u>-</u> | <u>-</u> | <u>(10,464)</u> | <u>-</u> | | |
| NET LOSS ALLOCATED TO LIMITED PARTNERS | \$ (204,535) | \$ (633,996) | \$ (1,911,994) | \$ (1,965,575) | \$ (329,573) | | |
| Loss from continuing operations per limited partnership unit | \$ (16.27) | \$ (26.30) | \$ (62.65) | \$ (50.27) | \$ (0.60) | | |
| Discontinued operations, net per limited partnership unit | <u>-</u> | <u>-</u> | <u>-</u> | <u>(0.27)</u> | <u>-</u> | | |
| NET LOSS PER LIMITED PARTNERSHIP UNIT | \$ (16.27) | \$ (26.30) | \$ (62.65) | \$ (50.54) | \$ (0.60) | | |
| Weighted average number of limited partnership units | 12,570 | 24,109 | 30,521 | 38,889 | 552,236 | | |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statements of Operations for the Year Ended December 31, 2003

| | NTS Properties III | NTS Properties IV | NTS Properties V | NTS Properties VI | NTS Properties VII | NTS Private Group | BBC 1A |
|---|-----------------------------------|----------------------------------|---------------------------------|----------------------------------|-----------------------------------|----------------------------------|--------------------------|
| REVENUE: | | | | | | | |
| Rental income | \$ 3,396,583 | \$ 2,412,791 | \$ 3,970,342 | \$ 5,940,198 | \$ 1,637,858 | \$ 8,754,844 | \$ 752,787 |
| Tenant reimbursements | <u>367,297</u> | <u>180,238</u> | <u>1,110,788</u> | <u>2,743</u> | <u>-</u> | <u>514,590</u> | <u>196,224</u> |
| Total revenue | 3,763,880 | 2,593,029 | 5,081,130 | 5,942,941 | 1,637,858 | 9,269,434 | 949,011 |
| EXPENSES: | | | | | | | |
| Operating expenses | 805,930 | 451,344 | 1,111,546 | 1,309,421 | 359,219 | 1,378,746 | 111,379 |
| Operating expenses reimbursed to affiliate | 298,986 | 373,914 | 572,350 | 912,136 | 264,324 | 649,846 | 43,093 |
| Management fees | 179,651 | 145,239 | 286,176 | 304,594 | 82,176 | 556,157 | 56,960 |
| Property taxes and insurance | 243,499 | 164,690 | 831,866 | 790,282 | 124,973 | 485,496 | 61,593 |
| Professional and administrative expenses | 305,507 | 390,350 | 660,897 | 763,430 | 277,924 | 116,016 | - |
| Professional and administrative expenses reimbursed to affiliate | 143,346 | 146,608 | 186,979 | 394,841 | 131,572 | - | - |
| Depreciation and amortization | <u>1,096,104</u> | <u>509,915</u> | <u>1,242,694</u> | <u>1,780,260</u> | <u>407,690</u> | <u>1,916,497</u> | <u>213,040</u> |
| Total operating expenses | <u>3,073,023</u> | <u>2,182,060</u> | <u>4,892,508</u> | <u>6,254,964</u> | <u>1,647,878</u> | <u>5,102,758</u> | <u>486,065</u> |
| OPERATING INCOME (LOSS) | 690,857 | 410,969 | 188,622 | (312,023) | (10,020) | 4,166,676 | 462,946 |
| Interest and other income | 17,596 | 7,894 | 126,934 | 125,658 | 6,707 | 73,164 | 317 |
| Interest expense | (433,874) | (263,897) | (977,126) | (2,111,482) | (254,763) | (2,942,574) | (131,736) |
| Loss on disposal of assets | (6,435) | (16,895) | (5,784) | (98,945) | - | (119,773) | (51,513) |
| Income from investment in joint ventures | <u>-</u> | <u>119,295</u> | <u>-</u> | <u>-</u> | <u>87,757</u> | <u>-</u> | <u>-</u> |
| Income (loss) before minority interest | 268,144 | 257,366 | (667,354) | (2,396,792) | (170,319) | 1,177,493 | 280,014 |
| Minority interest | <u>-</u> | <u>-</u> | <u>(5,090)</u> | <u>35,228</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) from continuing operations | 268,144 | 257,366 | (662,264) | (2,432,020) | (170,319) | 1,177,493 | 280,014 |
| Discontinued operations, net | <u>-</u> | <u>-</u> | <u>-</u> | <u>924,715</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET INCOME (LOSS) | <u>\$ 268,144</u> | <u>\$ 257,366</u> | <u>\$ (662,264)</u> | <u>\$ (1,507,305)</u> | <u>\$ (170,319)</u> | <u>\$ 1,177,493</u> | <u>\$ 280,014</u> |
| Income (loss) from continuing operations allocated to limited partners | \$ 312,826 | \$ 254,792 | \$ (655,641) | \$ (2,407,700) | \$ (168,616) | | |
| Discontinued operations, net allocated to limited partners | <u>-</u> | <u>-</u> | <u>-</u> | <u>915,468</u> | <u>-</u> | | |
| NET INCOME (LOSS) ALLOCATED TO LIMITED PARTNERS | <u>\$ 312,826</u> | <u>\$ 254,792</u> | <u>\$ (655,641)</u> | <u>\$ (1,492,232)</u> | <u>\$ (168,616)</u> | | |
| Income (loss) from continuing operations per limited partnership unit | \$ 24.89 | \$ 10.57 | \$ (21.48) | \$ (61.91) | \$ (0.31) | | |
| Discontinued operations, net per limited partnership unit | <u>-</u> | <u>-</u> | <u>-</u> | <u>23.54</u> | <u>-</u> | | |
| NET INCOME (LOSS) PER LIMITED PARTNERSHIP UNIT ... | <u>\$ 24.89</u> | <u>\$ 10.57</u> | <u>\$ (21.48)</u> | <u>\$ (38.37)</u> | <u>\$ (0.31)</u> | | |
| Weighted average number of limited partnership units | <u>12,570</u> | <u>24,109</u> | <u>30,521</u> | <u>38,889</u> | <u>552,236</u> | | |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
Statement of Cash Flows for the Years Ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net loss | \$ (1,767,545) | \$ (3,269,540) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Settlement charge | - | 2,896,259 |
| Gain from sale of discontinued operations | (270,842) | - |
| Loss on disposal of assets | 661,823 | - |
| Depreciation and amortization | 9,358,242 | - |
| Write-off of loan costs | 113,102 | - |
| Changes in assets and liabilities: | | |
| Cash and equivalents - restricted | (73,603) | - |
| Accounts receivable | (616,309) | - |
| Other assets | (1,307,944) | (182,326) |
| Accounts payable and accrued expenses | 213,297 | 477,090 |
| Accounts payable and accrued expenses due to affiliate | 195,259 | 386 |
| Distributions declared payable | 2,276,321 | - |
| Security deposits | 235,229 | - |
| Other liabilities | (1,689,574) | - |
| Net cash provided by (used in) operating activities | <u>7,327,456</u> | <u>(78,131)</u> |
| INVESTING ACTIVITIES: | | |
| Additions to land, buildings and amenities | (6,841,280) | - |
| Proceeds from sale of discontinued operations | 386,157 | - |
| Acquisition of The Lakes Apartments | (15,975,000) | - |
| Deposits on property acquisitions | (2,800,000) | - |
| Investment in and note receivable from joint venture | (9,010,224) | - |
| Proceeds from investment in and note receivable from joint venture | 9,010,224 | - |
| Cash and equivalents - restricted | (874,079) | - |
| Net cash used in investing activities | <u>(26,104,202)</u> | <u>-</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from mortgages and notes payable | 42,100,000 | 104,921,350 |
| Principal payments on mortgages and notes payable | (36,289,230) | (950,000) |
| Advances to refinance predecessors' mortgages and notes payable | - | (89,172,270) |
| Payoff to refinance mortgages and notes payable | - | (13,563,968) |
| Repayment of notes payable | (14,986,826) | - |
| Proceeds from revolving note payable, net | 34,388,950 | - |
| Cash contributed via merger | - | 2,514,062 |
| Additions to loan costs | (186,203) | (1,097,288) |
| Distributions paid | (3,414,482) | - |
| Net cash provided by financing activities | <u>21,612,209</u> | <u>2,651,886</u> |
| NET INCREASE IN CASH AND EQUIVALENTS | <u>2,835,463</u> | <u>2,573,755</u> |
| CASH AND EQUIVALENTS, beginning of year | <u>2,573,855</u> | <u>100</u> |
| CASH AND EQUIVALENTS, end of year | <u>\$ 5,409,318</u> | <u>\$ 2,573,855</u> |
| Interest paid on a cash basis | <u>\$ 7,235,589</u> | <u>\$ -</u> |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statements of Cash Flows for the Period from January 1, 2004 to December 27, 2004

| | NTS Properties III | NTS Properties IV | NTS Properties V | NTS Properties VI | NTS Properties VII | NTS Private Group | BBC 1A |
|--|--------------------------|-------------------------|------------------------|-------------------------|--------------------------|-------------------------|-------------------|
| OPERATING ACTIVITIES: | | | | | | | |
| Net (loss) income | \$ (253,950) | \$ (640,400) | \$ (1,931,307) | \$ (1,985,429) | \$ (332,902) | \$ (2,159,059) | \$ 247,498 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | | | | | | |
| Provision for doubtful accounts | 14,666 | 3,390 | 117,824 | 97,456 | 12,417 | 153,854 | - |
| Write-off of uncollectible accounts receivable..... | (2,092) | (8,833) | (7,522) | (110,406) | (14,777) | (16,217) | - |
| Loss on disposal of assets | 1,261 | 12,200 | 6,181 | 14,404 | 1,700 | 38,706 | - |
| Depreciation and amortization | 1,166,345 | 514,538 | 1,546,043 | 2,717,934 | 411,252 | 2,279,668 | 361,383 |
| Write-off of loan costs | 47,647 | 16,336 | 130,853 | 261,355 | 24,449 | 214,464 | 1,652 |
| Income (loss) from investment in joint ventures | - | 36,923 | - | - | (77,565) | - | - |
| Minority interest (loss) income | - | - | (212,619) | 35,561 | - | - | - |
| Yield maintenance premiums..... | 693,160 | 327,590 | 1,005,521 | 778,458 | - | 3,011,814 | 18,419 |
| Changes in assets and liabilities: | | | | | | | |
| Cash and equivalents - restricted | 9,233 | 26,207 | 340,199 | 12,294 | (525) | 70,815 | (547) |
| Accounts receivable | (217,246) | 17,680 | (171,477) | 113,615 | 5,549 | (8,812) | 20,749 |
| Other assets..... | (75,421) | (5,815) | (75,173) | (33,758) | 3,700 | (215,603) | 1,279 |
| Accounts payable and accrued expenses..... | (120,351) | 136,722 | 76,701 | 28,809 | (45,410) | (234,145) | (7,403) |
| Accounts payable and accrued expenses due to affiliate | 15,256 | (9,081) | (345,514) | (134,600) | (79,407) | 34,521 | 304,168 |
| Security deposits | 5,590 | (2,950) | 20,060 | 5,630 | - | (29,801) | - |
| Other liabilities | 646 | 26,663 | (36,423) | (135,670) | 1,128 | 16,511 | 4,028 |
| Net cash provided by (used in) operating activities | <u>1,284,744</u> | <u>451,170</u> | <u>463,347</u> | <u>1,665,653</u> | <u>(90,391)</u> | <u>3,156,716</u> | <u>951,226</u> |
| INVESTING ACTIVITIES: | | | | | | | |
| Additions to land, buildings and amenities..... | (189,422) | (120,395) | (443,645) | (719,744) | (13,846) | (857,672) | (26,379) |
| Proceeds from sales of land, buildings and amenities..... | - | - | - | - | - | 20,003 | - |
| Investment in and advances from joint ventures | - | 132,483 | - | - | 113,930 | - | - |
| Minority interest..... | - | - | 26,295 | (51,086) | - | - | - |
| Net cash (used in) provided by investing activities | <u>(189,422)</u> | <u>12,088</u> | <u>(417,350)</u> | <u>(770,830)</u> | <u>100,084</u> | <u>(837,669)</u> | <u>(26,379)</u> |
| FINANCING ACTIVITIES: | | | | | | | |
| Proceeds from mortgages and notes payable..... | - | - | 396,653 | 19,216 | - | 400,000 | - |
| Principal payments on mortgages and notes payable | (442,192) | (579,588) | (1,262,240) | (2,216,594) | (160,840) | (2,786,019) | (595,096) |
| Refinancing / loan payoff..... | (6,560,005) | (2,928,517) | (13,754,726) | (27,532,038) | (3,178,177) | (31,318,207) | (610,022) |
| Advance from NTS Realty | 6,581,327 | 2,941,532 | 14,701,488 | 29,371,242 | 3,251,759 | 31,412,706 | 912,217 |
| Cash distributions | - | - | - | - | - | (1,114,100) | (363,532) |
| Cash contributions | - | - | - | - | - | 902,000 | - |
| Additions to loan costs | (1,975) | - | (3,116) | - | - | - | - |
| Net cash (used in) provided by financing activities | <u>(422,845)</u> | <u>(566,573)</u> | <u>78,059</u> | <u>(358,174)</u> | <u>(87,258)</u> | <u>(2,503,620)</u> | <u>(656,433)</u> |
| NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS | <u>672,477</u> | <u>(103,315)</u> | <u>124,056</u> | <u>536,649</u> | <u>(77,565)</u> | <u>(184,573)</u> | <u>268,414</u> |
| CASH AND EQUIVALENTS, beginning of period | <u>180,911</u> | <u>298,240</u> | <u>191,321</u> | <u>125,342</u> | <u>263,655</u> | <u>440,049</u> | <u>33,977</u> |
| CASH AND EQUIVALENTS, end of period | <u>\$ 853,388</u> | <u>\$ 194,925</u> | <u>\$ 315,377</u> | <u>\$ 661,991</u> | <u>\$ 186,090</u> | <u>\$ 255,476</u> | <u>\$ 302,391</u> |
| Interest and yield maintenance premiums paid on a cash basis | <u>\$ 1,074,532</u> | <u>\$ 549,616</u> | <u>\$ 1,972,669</u> | <u>\$ 3,196,545</u> | <u>\$ 249,083</u> | <u>\$ 5,740,666</u> | <u>\$ 98,555</u> |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statements of Cash Flows for the Year Ended December 31, 2003

| | NTS Properties III | NTS Properties IV | NTS Properties V | NTS Properties VI | NTS Properties VII | NTS Private Group | BBC 1A |
|--|--------------------------|-------------------------|------------------------|-------------------------|--------------------------|-------------------------|------------------|
| OPERATING ACTIVITIES: | | | | | | | |
| Net income (loss)..... | \$ 268,144 | \$ 257,366 | \$ (662,264) | \$ (1,507,305) | \$ (170,319) | \$ 1,177,493 | \$ 280,014 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | | | |
| Loss on disposal of assets | 6,435 | 16,895 | 5,784 | 103,506 | - | 119,773 | 51,513 |
| Depreciation and amortization | 1,208,522 | 553,353 | 1,459,207 | 2,672,111 | 410,811 | 2,192,063 | 252,493 |
| Loss from investment in joint ventures..... | - | (119,295) | - | - | (87,757) | - | - |
| Minority interest (loss) income | - | - | (5,090) | 35,228 | - | - | - |
| Changes in assets and liabilities: | | | | | | | |
| Cash and equivalents - restricted | (3,155) | (20,351) | (289,041) | (8,190) | 2,150 | 134,949 | (4,251) |
| Accounts receivable | (172,790) | (48,020) | (243,834) | (98,745) | (45) | 28,734 | (16,777) |
| Other assets..... | (142,517) | 3,487 | (250,302) | (4,996) | 3,991 | (86,591) | 4,155 |
| Accounts payable and accrued expenses..... | 163,477 | 142,294 | 456,321 | 1,114 | 136,034 | 34,737 | 6,282 |
| Accounts payable and accrued expenses due to affiliate | - | - | 294,771 | 206,789 | - | - | - |
| Security deposits | (13,966) | (2,968) | 45,545 | 12,836 | (2,075) | 17,259 | - |
| Other liabilities | (64,969) | (11,027) | (12,470) | 106,371 | (18,338) | (26,643) | (2,292) |
| Net cash provided by operating activities..... | 1,249,181 | 771,734 | 798,627 | 1,518,719 | 274,452 | 3,591,774 | 571,137 |
| INVESTING ACTIVITIES: | | | | | | | |
| Additions to land, buildings and amenities..... | (469,668) | (118,173) | (847,587) | (724,970) | (200,794) | (1,183,840) | (155,022) |
| Proceeds from sales of land, buildings and amenities..... | - | 2,781 | 3,123 | - | 797 | - | - |
| Notes receivable from affiliate..... | - | - | - | - | - | 6,161,241 | - |
| Investment in and advances from (to) joint ventures | - | 41,098 | - | - | (38,132) | - | - |
| Minority interest..... | - | - | (14,073) | (62,831) | - | - | - |
| Net cash (used in) provided by investing activities | (469,668) | (74,294) | (858,537) | (787,801) | (238,129) | 4,977,401 | (155,022) |
| FINANCING ACTIVITIES: | | | | | | | |
| Proceeds from mortgages and notes payable..... | - | - | 3,098,101 | 400,000 | - | 152,928 | - |
| Principal payments on mortgages and notes payable..... | (987,051) | (604,929) | (3,000,679) | (2,064,390) | (155,201) | (3,022,310) | (546,767) |
| Notes payable to affiliate..... | - | - | - | - | - | (6,664,748) | - |
| Cash distributions | - | - | - | - | - | (377,000) | (6,636) |
| Cash contributions..... | - | - | - | - | - | 1,351,369 | 128,310 |
| Additions to loan costs | - | - | (81,992) | - | - | (989) | - |
| Net cash (used in) provided by financing activities..... | (987,051) | (604,929) | 15,430 | (1,664,390) | (155,201) | (8,560,750) | (425,093) |
| NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS..... | (207,538) | 92,511 | (44,480) | (933,472) | (118,878) | 8,425 | (8,978) |
| CASH AND EQUIVALENTS, beginning of period..... | 388,449 | 205,729 | 235,801 | 1,058,814 | 382,533 | 431,624 | 42,955 |
| CASH AND EQUIVALENTS, end of period | \$ 180,911 | \$ 298,240 | \$ 191,321 | \$ 125,342 | \$ 263,655 | \$ 440,049 | \$ 33,977 |
| Interest paid on a cash basis | \$ 433,073 | \$ 260,306 | \$ 920,073 | \$ 2,478,435 | \$ 252,155 | \$ 2,802,304 | \$ 126,369 |

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
Statement of Partners' Equity ⁽¹⁾ for the Years Ended December 31, 2005

| | General Partner Interests | Limited Partners Interests | General Partner | Limited Partners | Total |
|--|--|---|----------------------------|-----------------------------|-----------------------------|
| PARTNERS' EQUITY: | | | | | |
| Balances of January 1, 2004 | - | - | \$ - | \$ - | - |
| Capital contribution on January 15, 2004 | - | - | 100 | - | 100 |
| Net loss | - | - | (205,249) | (3,064,291) | (3,269,540) |
| Noncash settlement charge | - | - | 181,816 | 2,714,443 | 2,896,259 |
| Issuance of limited partnership units | <u>714,491</u> | <u>10,667,117</u> | <u>3,132,721</u> | <u>46,770,445</u> | <u>49,903,166</u> |
| Balances on December 31, 2004 | <u>714,491</u> | <u>10,667,117</u> | <u>3,109,388</u> | <u>46,420,597</u> | <u>49,529,985</u> |
| Termination of minority interest in Lakeshore/University II Joint Venture | - | - | (1,440) | (20,001) | (21,441) |
| Net loss | - | - | (110,959) | (1,656,586) | (1,767,545) |
| Distributions declared | <u>-</u> | <u>-</u> | <u>(357,246)</u> | <u>(5,333,558)</u> | <u>(5,690,804)</u> |
| Balances on December 31, 2005 | <u><u>714,491</u></u> | <u><u>10,667,117</u></u> | <u><u>\$ 2,639,743</u></u> | <u><u>\$ 39,410,452</u></u> | <u><u>\$ 42,050,195</u></u> |

(1) For the period presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
*Statement of Partners' Equity ⁽¹⁾ for the Period from January 1, 2004 to December 27, 2004
and the Year Ended December 31, 2003*

NTS-PROPERTIES III

| | <u>Limited Partner Interests</u> | | <u>Limited Partners</u> | | <u>General Partner</u> | | <u>Total</u> |
|--------------------------------------|--|----|-----------------------------|----|----------------------------|----|--------------------|
| PARTNERS' EQUITY / (DEFICIT): | | | | | | | |
| Balances of January 1, 2003 | 12,570 | \$ | 3,790,234 | \$ | (376,831) | \$ | 3,413,403 |
| Net income (loss) | - | | <u>312,826</u> | | <u>(44,682)</u> | | <u>268,144</u> |
| Balances on December 31, 2003 | 12,570 | | 4,103,060 | | (421,513) | | 3,681,547 |
| Net loss | - | | (204,535) | | (49,415) | | (253,950) |
| Merger into NTS Realty | <u>(12,570)</u> | | <u>(3,898,525)</u> | | <u>470,928</u> | | <u>(3,427,597)</u> |
| Balances on December 27, 2004 | <u>-</u> | \$ | <u>-</u> | \$ | <u>-</u> | \$ | <u>-</u> |

NTS-PROPERTIES IV

| | <u>Limited Partner Interests</u> | | <u>Limited Partners</u> | | <u>General Partner</u> | | <u>Total</u> |
|--------------------------------------|--|----|-----------------------------|----|----------------------------|----|--------------------|
| PARTNERS' EQUITY / (DEFICIT): | | | | | | | |
| Balances of January 1, 2003 | 24,109 | \$ | 4,076,222 | \$ | (210,109) | \$ | 3,866,113 |
| Net income | - | | <u>254,792</u> | | <u>2,574</u> | | <u>257,366</u> |
| Balances on December 31, 2003 | 24,109 | | 4,331,014 | | (207,535) | | 4,123,479 |
| Net loss | - | | (633,996) | | (6,404) | | (640,400) |
| Merger into NTS Realty | <u>(24,109)</u> | | <u>(3,697,018)</u> | | <u>213,939</u> | | <u>(3,483,079)</u> |
| Balances on December 27, 2004 | <u>-</u> | \$ | <u>-</u> | \$ | <u>-</u> | \$ | <u>-</u> |

- (1) For the period presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statement of Partners' Equity ⁽¹⁾ for the Period from January 1, 2004 to December 27, 2004
and the Year Ended December 31, 2003 (continued)

NTS-PROPERTIES V

| | Limited Partner Interests | | Limited Partners | | General Partner | | Total |
|--------------------------------------|--|----|-----------------------------|----|----------------------------|----|--------------|
| PARTNERS' EQUITY / (DEFICIT): | | | | | | | |
| Balances of January 1, 2003 | 30,521 | \$ | 7,106,933 | \$ | (112,847) | \$ | 6,994,086 |
| Net loss | - | | (655,641) | | (6,623) | | (662,264) |
| Balances on December 31, 2003 | 30,521 | | 6,451,292 | | (119,470) | | 6,331,822 |
| Net loss | - | | (1,911,994) | | (19,313) | | (1,931,307) |
| Merger into NTS Realty | (30,521) | | (4,539,298) | | 138,783 | | (4,400,515) |
| Balances on December 27, 2004 | - | \$ | - | \$ | - | \$ | - |

NTS-PROPERTIES VI

| | Limited Partner Interests | | Limited Partners | | General Partner | | Total |
|--------------------------------------|--|----|-----------------------------|----|----------------------------|----|--------------|
| PARTNERS' EQUITY / (DEFICIT): | | | | | | | |
| Balances of January 1, 2003 | 38,889 | \$ | 10,414,072 | \$ | (228,838) | \$ | 10,185,234 |
| Net loss | - | | (1,492,232) | | (15,073) | | (1,507,305) |
| Balances on December 31, 2003 | 38,889 | | 8,921,840 | | (243,911) | | 8,677,929 |
| Net loss | - | | (1,965,575) | | (19,854) | | (1,985,429) |
| Merger into NTS Realty | (38,889) | | (6,956,265) | | 263,765 | | (6,692,500) |
| Balances on December 27, 2004 | - | \$ | - | \$ | - | \$ | - |

- (1) For the period presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
Statement of Partners' Equity ⁽¹⁾ for the Period from January 1, 2004 to December 27, 2004
and the Year Ended December 31, 2003 (continued)

NTS-PROPERTIES VII

| | <u>Limited Partner Interests</u> | | <u>Limited Partners</u> | | <u>General Partner</u> | | <u>Total</u> |
|--------------------------------------|--|----|-----------------------------|----|----------------------------|----|--------------|
| PARTNERS' EQUITY / (DEFICIT): | | | | | | | |
| Balances of January 1, 2003 | 552,236 | \$ | 4,876,443 | \$ | (56,699) | \$ | 4,819,744 |
| Net loss | - | | (168,616) | | (1,703) | | (170,319) |
| Balances on December 31, 2003 | 552,236 | | 4,707,827 | | (58,402) | | 4,649,425 |
| Net loss | - | | (329,573) | | (3,329) | | (332,902) |
| Merger into NTS Realty | (552,236) | | (4,378,254) | | 61,731 | | (4,316,523) |
| Balances on December 27, 2004 | - | \$ | - | \$ | - | \$ | - |

NTS PRIVATE GROUP

| | <u>Partners' Equity/Deficit</u> |
|------------------------------------|-------------------------------------|
| Balance of January 1, 2003 | \$ (1,515,006) |
| Contributions | 1,351,369 |
| Net income | 1,177,493 |
| Distributions | (871,655) |
| Balance on December 31, 2003 | 142,201 |
| Contributions | 902,000 |
| Net loss | (2,159,059) |
| Distributions | (1,114,100) |
| Balance on December 27, 2004 | \$ (2,228,958) |

- (1) For the period presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP PREDECESSORS'
*Statement of Partners' Equity ⁽¹⁾ for the Period from January 1, 2004 to December 27, 2004
and the Year Ended December 31, 2003 (continued)*

BLANKENBAKER BUSINESS CENTER 1A

| | <u>Partners' Equity/Deficit</u> |
|------------------------------------|-------------------------------------|
| Balance of January 1, 2003 | \$ 1,541,392 |
| Net income | 280,014 |
| Distributions | (6,636) |
| Capital contributions | <u>128,310</u> |
| Balance on December 31, 2003 | 1,943,080 |
| Net income | 247,498 |
| Distributions | (363,532) |
| Merger into NTS Realty | <u>(1,827,046)</u> |
| Balance on December 27, 2004 | \$ <u>-</u> |

- (1) For the period presented, there are no elements of other comprehensive income as defined by the Financial Accounting Standards Board, Statement of Financial Accounting Standards Statement No. 130, "Reporting Comprehensive Income."

The accompanying notes to financial statements are an integral part of these statements.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
Notes to Financial Statements

Note 1 - Organization

NTS Realty Holdings Limited Partnership (“NTS Realty”), was organized in the state of Delaware in 2003 and was formed by the merger of NTS-Properties III; NTS-Properties IV; NTS-Properties V, a Maryland limited partnership; NTS-Properties VI, a Maryland limited partnership; and NTS-Properties VII, Ltd. (the “Partnerships”), along with other real estate entities affiliated with their general partners, specifically Blankenbaker Business Center 1A and the NTS Private Group’s assets and liabilities. Certain litigation as described in Note - 9 Commitments and Contingencies was settled as a result of the merger. The merger was completed on December 28, 2004 after a majority of each Partnership’s limited partners voted for the merger. The Partnerships and Blankenbaker Business Center 1A were terminated by the merger and ceased to exist. Concurrent with the merger, ORIG, LLC (“ORIG”), a Kentucky limited liability company, affiliated with the Partnerships’ general partners, contributed substantially all of its assets and liabilities to NTS Realty, including the NTS Private Group properties.

The Partnerships, NTS Private Group and Blankenbaker Business Center 1A are referred to as NTS Realty’s Predecessors (the “Predecessors”). NTS Realty did not have significant operations until the merger on December 28, 2004. All operations prior to that are for the Predecessors and are reflected as such in the accompanying Statements of Operations. The Predecessors’ operating results were substantially complete as of December 27, 2004 for the calendar year ended December 31, 2004, making the results for the period from January 1, 2004 to December 27, 2004 comparable to the year ended December 31, 2003. No adjustments or reconciliations are necessary for comparability.

In connection with the merger, we issued 11,381,608 limited partnership units to the former partners of the Partnerships and to ORIG.

At the time of the merger, we refinanced approximately \$94.0 million of debt on the properties contributed by the Partnerships and ORIG with approximately \$104.0 million of new debt. Acquisition of the new debt required us to pay the yield maintenance premiums on the refinanced debt, which totaled approximately \$5.8 million.

We are in the business of developing, constructing, owning and operating multifamily properties, commercial and retail real estate and land leases. Following the merger and contribution and as of December 31, 2005, we own twenty-eight properties, comprised of six multifamily properties; eighteen office and business centers; three retail properties; and one ground lease. The properties are located in and around Louisville (19) and Lexington (1), Kentucky; Orlando (2) and Fort Lauderdale (3), Florida; Indianapolis (2), Indiana and Atlanta (1), Georgia. Our office and business centers aggregate approximately 1.7 million square feet. We own multifamily properties containing approximately 1,570 units and retail properties containing approximately 210,000 square feet of space, as well as one ground lease associated with a 120-space parking lot attached to one of our properties.

The terms “we,” “us” or “our,” as the context requires, may refer to NTS Realty, one of the Partnerships or their interests in the properties and joint ventures listed below.

Note 2 - Significant Accounting Policies

A) Basis of Presentation

The consolidated financial statements of NTS-Properties V and NTS-Properties VI include the accounts of all wholly-owned properties and majority-owned joint ventures. Intercompany transactions and balances have been eliminated.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an interpretation of ARB 51.” In December 2003, the FASB issued FIN No. 46 (Revised December 2003), “Consolidation of Variable Interest Entities” (“FIN 46-R”) to address certain FIN 46 implementation issues. The primary objectives of these interpretations are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (“variable interest entities”) and how to determine when and which business enterprise (the “primary beneficiary”) should consolidate the variable interest entity.

Our adoption of these provisions did not have any impact on our financial statements.

Minority Interest

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (“SFAS 150”). SFAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS 150 was effective for all financial instruments created or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. On November 7, 2003, FASB Staff Position No. FAS 150-3 was issued, which deferred for an indefinite period the classification and measurement provisions, but not the disclosure provisions of SFAS 150.

NTS-Properties V and NTS-Properties VI consolidated certain properties that were also owned by affiliated parties that have noncontrolling interests. In certain cases, the applicable joint venture agreement provides for a contractual termination date of the agreement based on certain specified events. SFAS 150 describes this type of arrangement as a “limited-life subsidiary.” SFAS 150 requires the disclosure of the estimated settlement value of these noncontrolling interests. As of December 31, 2003, the estimated settlement value of these noncontrolling interests for NTS-Properties V and NTS-Properties VI was approximately \$3,147,000 and \$555,000, respectively. This settlement value is based on estimated third-party consideration paid to the joint venture upon disposition of each property and is net of all other assets and liabilities including any yield maintenance that would have been due on that date had the mortgages encumbering the properties been prepaid on December 31, 2003. The affected joint ventures were merged and ceased to exist at the time of the merger with NTS Realty.

B) Recent Accounting Pronouncements

In March 2005, FASB issued Interpretation No. 47 (“FIN 47”), “Accounting for Conditional Asset Retirement Obligations.” FIN 47 clarifies the accounting for legal obligations to perform asset retirement activity in which the timing and/or method of settlement are conditional on future events. FIN 47 requires the fair value of such conditional asset retirement obligations to be recorded as incurred, if the fair value of the liability can be reasonably estimated. We adopted the provisions of FIN 47 as of December 31, 2005 and determined that we have no asset retirement obligations that are required to be recognized under FIN 47.

C) Properties and Joint Ventures

NTS Realty is a limited partnership organized under the laws of the state of Delaware in 2003. During 2005, NTS Realty acquired the following properties and joint venture interest.

- The Lakes Apartments, a 230-unit luxury apartment complex in Indianapolis, Indiana.
- In September 2005, we entered into a joint venture agreement investment with an unaffiliated third-party investor to acquire an approximately \$16.0 million mortgage secured by real property and improvements. In December 2005, the joint venture liquidated and we received approximately \$953,000 in joint venture income.

NTS Realty succeeded the predecessor entities ownership of properties following the merger whereby all of the following partnerships and joint ventures were combined into NTS Realty and ceased to exist. NTS Realty now holds all of the properties formerly held by the partnerships and joint ventures.

NTS-PROPERTIES III

NTS-Properties III was a limited partnership organized under the laws of the state of Georgia on June 24, 1982. The general partner was NTS-Properties Associates, a Georgia limited partnership.

- NTS Center, an office complex with approximately 116,200 net rentable square feet in Louisville, Kentucky.
- Plainview Center, an office complex with approximately 96,200 net rentable square feet in Louisville, Kentucky.
- Peachtree Corporate Center, a business park with approximately 192,000 net rentable square feet in Atlanta, Georgia.

NTS-PROPERTIES IV

NTS-Properties IV was a limited partnership organized under the laws of the Commonwealth of Kentucky on May 13, 1983. The general partner was NTS-Properties Associates IV, a Kentucky limited partnership.

- Commonwealth Business Center Phase I, a business center with approximately 62,700 net rentable square feet in Louisville, Kentucky.
- Plainview Point Office Center Phases I and II, an office center with approximately 57,300 net rentable square feet in Louisville, Kentucky.
- The Willows of Plainview Phase I, a 118-unit luxury apartment community in Louisville, Kentucky.
- A 9.70% joint venture interest in The Willows of Plainview Phase II, a 144-unit luxury apartment community in Louisville, Kentucky.
- A 3.97% joint venture interest in Golf Brook Apartments, a 195-unit luxury apartment community in Orlando, Florida.
- A 4.96% joint venture interest in Plainview Point Office Center Phase III, an office center with approximately 61,700 net rentable square feet in Louisville, Kentucky.
- A 29.61% joint venture interest in Blankenbaker Business Center 1A, a business center with approximately 100,600 net rentable square feet in Louisville, Kentucky.
- A 10.92% joint venture interest in the Lakeshore/University II Joint Venture. A description of the properties owned by the Joint Venture appears below:
 - Lakeshore Business Center Phase I - a business center with approximately 102,300 net rentable square feet in Fort Lauderdale, Florida.
 - Lakeshore Business Center Phase II - a business center with approximately 96,200 net rentable square feet in Fort Lauderdale, Florida.
 - Lakeshore Business Center Phase III - a business center with approximately 38,900 net rentable square feet in Fort Lauderdale, Florida.

NTS-PROPERTIES V

NTS-Properties V, a Maryland limited partnership, was a limited partnership organized on April 30, 1984. The general partner was NTS-Properties Associates V, a Kentucky limited partnership.

- Commonwealth Business Center Phase II, a business center with approximately 65,900 net rentable square feet in Louisville, Kentucky.
- A 90.30% joint venture interest in The Willows of Plainview Phase II, a 144-unit luxury apartment complex in Louisville, Kentucky.
- An 81.19% joint venture interest in the Lakeshore/University II Joint Venture. A description of the properties owned by the Joint Venture appears below:
 - Lakeshore Business Center Phase I - a business center with approximately 102,300 net rentable square feet in Fort Lauderdale, Florida.
 - Lakeshore Business Center Phase II - a business center with approximately 96,200 net rentable square feet in Fort Lauderdale, Florida.
 - Lakeshore Business Center Phase III - a business center with approximately 38,900 net rentable square feet in Fort Lauderdale, Florida.

NTS-PROPERTIES VI

NTS-Properties VI, a Maryland limited partnership, was a limited partnership organized under the laws of the state of Maryland in December 1984. The general partner was NTS-Properties Associates VI, a Kentucky limited partnership.

- Sabal Park Apartments, a 162-unit luxury apartment complex in Orlando, Florida.
- Park Place Apartments Phase I, a 180-unit luxury apartment complex in Lexington, Kentucky.
- Park Place Apartments Phase III, a 152-unit luxury apartment complex in Lexington, Kentucky.
- Willow Lake Apartments, a 207-unit luxury apartment complex in Indianapolis, Indiana.
- A 96.03% joint venture interest in Golf Brook Apartments, a 195-unit luxury apartment complex in Orlando, Florida.
- A 95.04% joint venture interest in Plainview Point Office Center Phase III, an office center with approximately 61,700 net rentable square feet in Louisville, Kentucky.

NTS-PROPERTIES VII

NTS-Properties VII, Ltd. was a limited partnership organized under the laws of the state of Florida in April 1987. The general partner was NTS-Properties Associates VII, a Kentucky limited partnership.

- The Park at the Willows, a 48-unit luxury apartment complex in Louisville, Kentucky.
- Park Place Apartments Phase II, a 132-unit luxury apartment complex in Lexington, Kentucky.
- A 31.34% joint venture interest in Blankenbaker Business Center 1A, a business center with approximately 100,600 net rentable square feet in Louisville, Kentucky.

NTS PRIVATE GROUP

NTS Private Group (the “Group”) was a group of partnerships and pass-through entities under the common ownership and control of Mr. Nichols. The Group included those properties that were contributed to ORIG as part of a restructuring and then to NTS Realty as part of the merger.

- Anthem Office Center, an office building with approximately 93,300 net rentable square feet in Louisville, Kentucky.
- Atrium Center, an office center with approximately 104,200 net rentable square feet in Louisville, Kentucky.
- Blankenbaker Business Center 1B, a business center with approximately 60,000 net rentable square feet in Louisville, Kentucky.
- Blankenbaker Business Center II, a business center with approximately 77,700 net rentable square feet in Louisville, Kentucky.
- Clarke American, a business center with approximately 50,000 net rentable square feet in Louisville, Kentucky.
- Outlets Mall, a retail center with approximately 162,600 net rentable square feet in Louisville, Kentucky.
- Sears Office Building, an office building with approximately 66,900 net rentable square feet in Louisville, Kentucky.
- Springs Medical Office Center, an office center with approximately 98,100 net rentable square feet in Louisville, Kentucky.
- Springs Office Center, an office center with approximately 125,900 net rentable square feet in Louisville, Kentucky.
- Bed, Bath & Beyond, a retail company with approximately 35,000 net rentable square feet in Louisville, Kentucky.
- Springs Station, a retail center with approximately 12,000 net rentable square feet in Louisville, Kentucky.
- ITT Parking Lot, a ground lease relating to a 120-space parking lot in Louisville, Kentucky.

BLANKENBAKER BUSINESS CENTER 1A

- Blankenbaker Business Center Joint Venture owned Blankenbaker Business Center 1A, a business center with approximately 100,600 net rentable square feet in Louisville, Kentucky.

D) Tax Status

We and all of our predecessors are or were treated as partnerships or pass-through entities for federal income tax purposes with the exception of one property in NTS Private Group which was owned by an individual. As such, no provisions for income taxes were made. The taxable income or loss was passed through to the holders of the partnership units or individual owner for inclusion on their individual income tax returns.

A reconciliation of net income for financial statement purposes versus that for income tax reporting is as follows:

NTS-REALTY

| | <i>Year Ended December 31, 2005</i> |
|--|---|
| | (1,767,545) |
| Net loss | \$ |
| Items handled differently for tax purposes: | |
| Depreciation and amortization | 3,112,414 |
| Prepaid rent and other capitalized costs | (150,787) |
| Loss on disposal of assets | (24,788) |
| Allowance for doubtful accounts | 216,519 |
| Acquisition costs | 96,085 |
| Other | 220,880 |
| Taxable income | \$ 1,702,778 |

NTS-PROPERTIES III

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Net (loss) income | \$ (253,950) | \$ 268,144 |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 416,078 | 335,800 |
| Prepaid rent and other capitalized costs | (133,545) | (247,562) |
| Loss on disposal of assets | (42,775) | (45,580) |
| Allowance for doubtful accounts | 12,574 | 828 |
| Merger costs | 232,691 | 101,565 |
| Other | (10,924) | 7,634 |
| Taxable income | \$ 220,149 | \$ 420,829 |

NTS-PROPERTIES IV

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| Net (loss) income | \$ (640,400) | \$ 257,366 |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 335,842 | 300,674 |
| Rental income | 31,374 | (5,359) |
| Merger costs | 444,677 | 184,679 |
| Other | (17,835) | (110,555) |
| Taxable income | \$ 153,658 | \$ 626,805 |

NTS-PROPERTIES V

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| Net loss | \$ (1,931,307) | \$ (662,264) |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 54,529 | 19,905 |
| Rental income | (9,050) | (24,313) |
| Merger costs | 559,085 | 236,455 |
| Other | 1,267 | (219,184) |
| Taxable loss | \$ (1,325,476) | \$ (649,401) |

NTS-PROPERTIES VI

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Net loss | \$ (1,985,429) | \$ (1,507,305) |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 14,337 | 6,491 |
| Loss on disposal of assets | (63,918) | (100,037) |
| Prepaid rent and other capitalized costs | 40,223 | 25,379 |
| Bad debt allowance | (12,637) | 5,141 |
| Merger costs | 715,540 | 302,746 |
| Other | 3,416 | 4,206 |
| Taxable loss | \$ (1,288,468) | \$ (1,263,379) |

NTS-PROPERTIES VII

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Net loss | \$ (332,902) | \$ (170,319) |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 59,190 | 5,085 |
| Prepaid rent and other capitalized costs | 3,435 | (22,335) |
| Bad debt allowance | (2,360) | (4,148) |
| Gain (loss) on disposal of assets | 612 | (100,231) |
| Merger costs | 204,199 | 83,927 |
| Accrued expenses | - | 476 |
| Nondeductible expenses | 299 | 393 |
| Taxable loss | \$ (67,527) | \$ (207,152) |

NTS PRIVATE GROUP

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| Net (loss) income | \$ (2,159,059) | \$ 1,177,493 |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 18,333 | (1,472,625) |
| Section 743 adjustments | (110,130) | (109,236) |
| Prepaid rent and other capitalized costs | (19,464) | 11,072 |
| Allowance for doubtful accounts | 138,963 | 4,240 |
| Accrued expenses | - | 3,581 |
| Other | 476 | 1,592 |
| Taxable loss | \$ (2,130,881) | \$ (383,883) |

BLANKENBAKER BUSINESS CENTER 1A

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| Net income | \$ 247,498 | \$ 280,014 |
| Items handled differently for tax purposes: | | |
| Depreciation and amortization | 52,819 | (16,553) |
| Loss on disposal of assets | - | (2,050) |
| Other | 31 | 143 |
| Taxable income | \$ 300,348 | \$ 261,554 |

E) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F) Reclassifications of 2004 and 2003 Financial Statements

Certain reclassifications have been made to the December 31, 2004 and 2003 financial statements to conform with December 31, 2005 classifications. These reclassifications have no effect on previously reported operating results or partners' equity.

G) Cash and Equivalents

Cash and equivalents include cash on hand and short-term, highly liquid investment with initial maturities of three months or less. We have a cash management program which provides for the overnight investment of excess cash balances. Under an agreement with a bank, excess cash is invested in a mutual fund for U.S. government and agency securities each night.

H) Cash and Equivalents - Restricted

Cash and equivalents - restricted represents cash on hand and short-term, highly liquid investments with initial maturities of three months or less which have been escrowed with certain mortgage companies and banks for property taxes, insurance and tenant improvements in accordance with certain loan and lease agreements and certain security deposits.

I) Deposits

We have included our earnest money deposits separately on our balance sheet pending the closing of certain property acquisitions.

J) Basis of Property and Depreciation

Land, buildings and amenities are stated at cost. Costs directly associated with the acquisition, development and construction of a project are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 5-30 years for land improvements, 7-30 years for buildings and improvements and 5-30 years for amenities. Tenant improvements are generally depreciated over the life of the initial or renewal term of the respective tenant lease. The aggregate cost of our properties for federal tax purposes is approximately \$128,845,000 at December 31, 2005.

Depreciation expense for the year ended December 31, 2005, the period ended December 27, 2004 and the year ended December 31, 2003 was as follows:

| | <u><i>Year Ended December 31,</i></u> | <u><i>Period Ended December 27,</i></u> | <u><i>Year Ended December 31,</i></u> |
|---------------------------------------|---|---|---|
| | <u><i>2005</i></u> | <u><i>2004</i></u> | <u><i>2003</i></u> |
| NTS Realty | \$ 6,497,048 | \$ - | \$ - |
| NTS-Properties III | - | 1,030,425 | 1,075,611 |
| NTS-Properties IV | - | 488,462 | 509,915 |
| NTS-Properties V | - | 1,323,426 | 1,242,694 |
| NTS-Properties VI | - | 1,817,305 | 1,780,261 |
| NTS-Properties VII | - | 408,391 | 407,690 |
| NTS Private Group | - | 1,893,890 | 1,821,879 |
| Blankenbaker Business Center 1A | - | 296,039 | 213,040 |
| | <u>\$ 6,497,048</u> | <u>\$ 7,257,938</u> | <u>\$ 7,051,090</u> |

Depreciation expense included in discontinued operations was \$504,156, \$845,673 and \$839,875 for the year ended December 31, 2005, the period ended December 27, 2004 and the year ended December 31, 2003, respectively.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value must be written down to fair value. In determining the value of an investment property and whether the investment property is impaired, management considers several factors such as projected rental and vacancy rates, property operating expenses, capital expenditures and interest rates. The capitalization rate used to determine property valuation is based on the market in which the investment property is located, length of leases, tenant financial strength, the economy in general, demographics, environment, property location, visibility, age and physical condition among others. All of these factors are considered by management in determining the value of any particular investment property. The value of any particular investment property is sensitive to the actual results of any of these factors, either individually or taken as a whole. If the actual results differ from management's judgment, the valuation could be negatively or positively affected. Application of this standard for the year ended December 31, 2005, for the period ended December 27, 2004, and for the years ended December 31, 2004 and 2003, did not result in an impairment loss.

K) Accounts Payable Due to Affiliate

Accounts payable due to affiliate includes amounts owed to NTS Development Company for reimbursement of salary and overhead expenses.

L) Revenue Recognition

Our multifamily communities have resident leases with terms generally of twelve months or less. We recognize rental revenue on an accrual basis when due from residents. Rental concessions and other inducements to the leases are recognized to revenue on a straight-line basis over the life of the respective leases. In accordance with our standard lease terms, rental payments are generally due on a monthly basis.

Our commercial properties, retail properties and commercial land lease are accounted for as operating leases. We accrue minimum rents on a straight-line basis over the initial or renewal terms of their respective leases. Substantially all of our retail tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. We recognize overage rents only when each tenant's sales exceeds its sales threshold. We structure our leases to allow us to recover a significant portion of our real estate taxes, property operating and repairs and maintenance expenses from our commercial tenants. Property operating expenses typically include utility, insurance, security, janitorial, landscaping and other administrative expenses. We accrue reimbursements from tenants for recoverable portions of all these expenses as revenue in the period the applicable expenditures are incurred. We also receive estimated payments for these reimbursements from substantially all our tenants throughout the year. We do this to reduce the risk of loss on uncollectible accounts once we perform the final year-end billings for recoverable expenditures. We recognize the difference between estimated recoveries and the final billed amounts in the subsequent year and we believe these differences are not material in any period presented.

We recognize revenue in accordance with each tenant's lease agreement. Certain of our lease agreements are structured to include scheduled and specified rent increases over the lease term. For financial reporting purposes, the income from these leases is being recognized on a straight-line basis over the initial lease term. Accrued income from these leases in accounts receivable was \$1,808,638 and \$1,247,703 at December 31, 2005 and 2004, respectively. All commissions paid to commercial leasing agents and incentives paid to tenants are deferred and amortized on a straight-line basis over the applicable initial or renewal lease term.

We recognize lease termination income upon receipt of the income. We accrue lease termination income if there is a signed termination agreement, all of the conditions of the agreement have been met and the tenant is no longer occupying the property.

M) Advertising

We expense advertising costs as incurred. Advertising expense was immaterial to us during 2005, 2004 and 2003.

N) Distribution Policy

We pay distributions if and when authorized by our managing general partner. We are required to pay distributions on a quarterly basis, commencing in the first quarter of 2005, equal to sixty-five percent (65%) of our "net cash flow from operations" as this term is defined in regulations promulgated by the Treasury Department under the Internal Revenue Code of 1986, as amended; provided that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity level taxation for federal, state or local income tax purposes, we will adjust the amount distributed to reflect our obligation to pay tax. Any distribution other than a distribution with respect to the final quarter of a calendar year shall be made no later than forty-five (45) days after the last day of such quarter based on our estimate of "net cash flow from operations" for the year. Any distribution with respect to the final quarter of a calendar year shall be made no later than ninety (90) days after the last day of such quarter based on actual "net cash flow from operations" for the year, adjusted for any excess or insufficient distributions made with respect to the first three quarters of the calendar year.

"Net cash flow from operations" may be reduced by the amount of reserves as determined by us each quarter. We will establish these reserves for, among other things, working capital or capital improvement needs. Therefore, there is no assurance that we will have net cash flow from operations from which to pay distributions in the future. For example, our partnership agreement permits our managing general partner to reinvest sales or refinancing proceeds in new and existing properties or to create reserves to fund future capital expenditures. Because net cash flow from operations is calculated after reinvesting sales or refinancing proceeds or establishing reserves, we may not have any net cash flow from operations from which to pay distributions.

O) Statements of Cash Flows

For purposes of reporting cash flows, cash and equivalents include cash on hand and short-term, highly liquid investments with initial maturities of three months or less.

Note 3 - Purchase Method Accounting and Proforma Balance Sheet and Results of Operations

The merger and property acquisition were accounted for using the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations." NTS Realty was treated as the purchasing entity. For the merger, a portion of each partnership's assets and liabilities was adjusted to reflect their fair market value. That portion owned by affiliates of the general partner of the Partnerships was reflected at net book value at the merger date. The assets and liabilities contributed through ORIG by NTS Private Group were accounted for as an exchange of partnership units (equivalent to shares) among entities under common control. Accordingly, the portion of the assets and liabilities representing Mr. Nichols' ownership interest in each of the respective entities comprising NTS Private Group were carried over at net book value at the merger date. The remaining portion of assets and liabilities contributed by and through ORIG were adjusted to reflect their fair market value at the date of the merger. We allocated the purchase price for each property to net tangible and identified intangible assets acquired based on their fair values (including land, buildings, tenant improvements, acquired above and below market leases and the origination cost of acquired in-place leases) and acquired liabilities. No customer relationship intangibles exist. The carrying value of mortgages and notes payable approximated fair market value. We retained an independent appraiser to assess fair value based on estimated cash flow projections that utilize discount and capitalization rates deemed appropriate and available market information.

Presented below is the balance sheet at December 28, 2004 after giving effect to the purchase accounting, refinancing and exchange of units as discussed above:

ASSETS:

| | | |
|--|-----------|---------------------------|
| Cash and equivalents | \$ | 3,523,855 |
| Cash and equivalents - restricted | | 313,255 |
| Accounts receivable, net | | 1,609,802 |
| Land, buildings and amenities, net | | 156,243,048 |
| Other assets | | <u>5,807,464</u> |
| Total assets | \$ | <u>167,497,424</u> |

LIABILITIES AND PARTNERS' EQUITY:

| | | |
|--|----|----------------|
| Mortgages and notes payable | \$ | 113,749,938 |
| Accounts payable and accrued expenses | | 2,588,663 |
| Accounts payable and accrued expenses due to affiliate | | 177,879 |
| Security deposits | | 676,665 |
| Other liabilities | | <u>774,294</u> |

Total liabilities 117,967,439

PARTNERS' EQUITY 49,529,985

Total liabilities and partners' equity \$ 167,497,424

Presented below is proforma condensed unaudited operating results for the years ended December 31, 2004 and 2003 as if the merger was completed on January 1, 2003:

| | <i>(Unaudited)</i> | |
|---|------------------------|-----------------------|
| | <i>Years Ended</i> | |
| | <i>December 31,</i> | |
| | <i>2004</i> | <i>2003</i> |
| Total revenues | \$ 34,269,118 | \$ 34,404,331 |
| Total operating expenses | 32,697,133 | 31,059,947 |
| Operating income | 1,571,985 | 3,344,384 |
| Interest and other income | 1,605,440 | 364,683 |
| Interest expense | (13,444,753) | (7,568,831) |
| Loss of disposal of assets | (74,452) | (303,906) |
| Settlement charge | - | (2,896,259) |
| Net loss | \$ (10,341,780) | \$ (7,059,929) |
| Net loss allocated to limited partners | \$ (9,692,564) | \$ (6,616,735) |
| Net loss per limited partnership unit | \$ (0.91) | \$ (0.62) |
| Number of limited partnership units | 10,667,117 | 10,667,117 |
| Ratio of earnings to fixed charges | 0.23 | 0.07 |

Intangibles

We have recorded intangible assets for above and below market leases and origination cost of acquired in place leases in connection with our merger and subsequent property acquisitions as of December 31, 2005 totaling approximately \$385,000 and \$2,142,000, respectively. Cumulative amortization at December 31, 2005 totals approximately \$46,000 and \$1,327,000, respectively. For the year ended December 31, 2005, the \$46,000 amortization of above and below market leases reduced rental income while the \$1,327,000 amortization of origination cost of acquired in place leases was included in amortization expense.

The following is an approximate schedule of estimated amortization remaining at December 31, 2005:

| <i>For the Years Ended December 31,</i> | <i>Above/Below Market Leases</i> | <i>Acquired In Place Lease Cost</i> |
|---|--|---|
| 2006 | \$ 86,000 | \$ 370,000 |
| 2007 | 75,000 | 179,000 |
| 2008 | 58,000 | 117,000 |
| 2009 | 53,000 | 62,000 |
| 2010 | 45,000 | 35,000 |
| Thereafter | 22,000 | 51,000 |
| | \$ 339,000 | \$ 814,000 |

Note 4 - Concentration of Credit Risk

We own and operate multifamily, commercial, retail properties and a land lease in Louisville and Lexington, Kentucky, Fort Lauderdale and Orlando, Florida, Indianapolis, Indiana and Atlanta, Georgia.

Our financial instruments that are exposed to concentrations of credit risk consist of cash and equivalents. We maintain our cash accounts primarily with banks located in Kentucky. The total cash balances are insured by the FDIC up to \$100,000 per bank account. We may at times, in certain accounts, have deposits in excess of \$100,000.

Note 5 - Land, Buildings and Amenities

NTS Realty

The following schedule provides an analysis of our investment in property held for lease as of December 31:

| | <u>2005</u> | <u>2004</u> |
|---|------------------------------|------------------------------|
| Land and improvements | \$ 38,018,181 | \$ 35,463,731 |
| Buildings and improvements | 114,642,490 | 97,145,927 |
| Amenities..... | <u>2,429,066</u> | <u>687,088</u> |
| | 155,089,737 | 133,296,746 |
| Less accumulated depreciation | <u>6,463,493</u> | <u>-</u> |
| | \$ <u><u>148,626,244</u></u> | \$ <u><u>133,296,746</u></u> |

Note 6 - Mortgages and Notes Payable

Mortgages and notes payable as of December 31 consist of the following:

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|-----------------------|
| Note payable to a bank with interest payable in monthly installments, at a variable rate based on LIBOR one-month rate plus 1.75%, due June 28, 2005. Refinanced in March 2005, as discussed below. | \$ - | \$ 14,971,350 |
| Mortgage payable to an insurance company in monthly installments, bearing interest at 5.07%, maturing on March 15, 2015, secured by certain land and buildings, with a carrying value of \$28,027,943. | 29,543,665 | - |
| Mortgage payable to a bank in monthly installments, bearing interest at a variable rate based on LIBOR one-month rate plus 2.50%, currently 6.791%, due January 1, 2008, secured by certain land and buildings, with a carrying value of \$16,719,846. The mortgage is guaranteed by Mr. Nichols (75%) and Mr. Lavin (25%). | 13,758,000 | 14,000,000 |
| Mortgage payable to an insurance company in monthly installments, bearing interest at 5.98%, maturing January 15, 2015, secured by land and buildings, with a carrying value of \$72,861,461. | 74,154,709 | 75,000,000 |
| Revolving note payable to a bank for \$20.0 million, with interest payable in monthly installments, unsecured, at a variable rate based on LIBOR plus 1.75%, currently 6.12%, due August 24, 2006. | - | - |
| Mortgage payable to a bank in monthly installments, bearing interest at 9.00%, maturing August 1, 2010, secured by certain land and a building, with a carrying value of \$2,929,761. | 2,720,522 | 2,806,142 |
| Mortgage payable to an insurance company in monthly installments, bearing interest at 8.45%, maturing November 1, 2015, secured by certain land and a building, with a carrying value of \$2,529,794. | 2,920,614 | 3,101,366 |
| Mortgage payable to an insurance company in monthly installments, bearing interest at 8.375%, maturing December 1, 2010, secured by certain land, buildings and amenities, with a carrying value of \$2,767,248. | 2,815,322 | 2,905,604 |
| Mortgage payable to a bank in monthly installments, bearing interest at 5.11%, maturing December 1, 2014, secured by certain land and buildings, with a carrying value of \$15,647,683. | 12,100,000 | - |
| Note payable to a finance company in monthly installments, bearing interest at 8.50%, due July 15, 2006, secured by equipment. The note was paid in full in January 2005. | - | 15,476 |
| | <u>\$ 138,012,832</u> | <u>\$ 112,799,938</u> |

Based on the borrowing rates currently available to us for loans with similar terms and average maturities, the fair value of long-term debt on December 31, 2005 was approximately \$129,471,000.

The note payable to a bank was paid from the proceeds of a \$30 million mortgage payable to an insurance company in March 2005. The mortgage payable bears interest at a fixed rate of 5.07%, maturing on March 15, 2015 and is secured by certain land and buildings, with a carrying value of \$28,027,943.

Our mortgages may be prepaid but are generally subject to a yield-maintenance premium. Certain mortgages and notes payable contain covenants and requirements that we maintain specified debt limits and ratios related to our debt balances and property values. We complied with all covenants and requirements at December 31, 2005.

Scheduled maturities of debt are as follows:

| <i>For the Years Ended December 31,</i> | <i>Amount</i> |
|---|-----------------------|
| 2006 | \$ 2,431,144 |
| 2007 | 2,567,591 |
| 2008 | 15,677,262 |
| 2009 | 2,603,875 |
| 2010 | 7,156,291 |
| Thereafter | 107,576,669 |
| | <u>\$ 138,012,832</u> |

Note 7 - Rental Income

NTS Realty

The following is a schedule of minimum future rental income on noncancellable operating leases as of December 31, 2005:

| <i>For the Years Ended December 31,</i> | <i>Amount</i> |
|---|-----------------------|
| 2006 | \$ 15,990,752 |
| 2007 | 13,579,889 |
| 2008 | 10,777,208 |
| 2009 | 8,443,190 |
| 2010 | 6,924,748 |
| Thereafter | 72,810,630 |
| | <u>\$ 128,526,417</u> |

Note 8 - Related Party Transactions

NTS-REALTY

NTS Realty is externally managed under an agreement with NTS Development Company, an affiliate of NTS Realty's general partner. NTS Development Company is paid a management fee pursuant to the terms of an agreement entered into with NTS Development Company. NTS Development Company is reimbursed its actual costs for services rendered to NTS Realty.

Employee costs are allocated amongst NTS Realty, other affiliates of our managing general partner and for the benefit of third parties, so that a full time employee can be shared by multiple entities. Each employee's services which are dedicated to a particular entity's operations are allocated as a percentage of each employee's costs to that entity. We only reimburse charges from NTS Development Company for actual costs of employee services incurred for our benefit.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the year ended December 31, 2005. These charges include items which have been expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which have been capitalized as other assets or as land, buildings and amenities. Certain of these items are included in our results of discontinued operations.

| | <i>Year Ended December 31, 2005</i> |
|--|---|
| Property management fees | \$ 1,670,460 |
| Operating expenses reimbursement - Property | 2,535,348 |
| Operating expenses reimbursement - Leasing | 213,894 |
| Operating expenses reimbursement - Administrative | 1,179,996 |
| Operating expenses reimbursement - Other | 92,705 |
| Total operating expenses reimbursed to affiliate | 4,021,943 |
| Professional and administrative expenses reimbursed to affiliate | 1,416,818 |
| Related party transactions capitalized | - |
| Total related party transactions | \$ 7,109,221 |

Property, leasing, administrative and other operating expenses reimbursed include employee costs charged to us by NTS Development Company and other actual costs incurred by NTS Development Company on our behalf, which were reimbursed by us.

During the year ended December 31, 2005, we were charged approximately \$64,000 for property maintenance fees from affiliates of NTS Development Company.

NTS Development Company leased 20,368 square feet in NTS Center, at a rental rate of \$14.50 per square foot. We received rental payments of approximately \$295,000 from NTS Development Company during the year ended December 31, 2005. The average per square foot rental rate for similar space in NTS Center as of December 31, 2005 was \$14.14 per square foot.

NTS Development Company leased 1,604 square feet in Commonwealth Business Center Phase I, at a rental rate of \$5.50 per square foot. We received rental payments of approximately \$8,800 from NTS Development Company during the year ended December 31, 2005. The average per square foot rental rate for similar space as of December 31, 2005 was \$5.50 per square foot.

Pursuant to the terms of the settlement agreement with respect to the class action litigation involving the Partnerships, the independent directors of our managing general partner have undertaken a review of the terms of our existing management agreement with NTS Development. In addition, the independent directors engaged a nationally recognized real estate expert to assist them in their review. Although the review of the management agreement has not yet been completed, we anticipate that we and NTS Development will enter into an amended and restated management agreement in the near future. We also anticipate that the terms of the amended and restated management agreement will be effective as of December 29, 2005.

NTS-PROPERTIES III

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, received property management fees. The fees were paid in an amount equal to 5% of the gross receipts from our properties. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of the costs incurred which related to capital improvements. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i><u>Period Ended</u></i> <i><u>December 27,</u></i> <i><u>2004</u></i> | <i><u>Year Ended</u></i> <i><u>December 31,</u></i> <i><u>2003</u></i> |
|--|--|--|
| Property management fees | \$ 181,963 | \$ 179,651 |
| Operating expenses reimbursement - Property | 211,682 | 191,010 |
| Operating expenses reimbursement - Leasing | 45,047 | 56,563 |
| Operating expenses reimbursement - Administrative | 66,498 | 43,603 |
| Operating expenses reimbursement - Other | <u>9,534</u> | <u>7,810</u> |
| Total operating expenses reimbursed to affiliate | <u>332,761</u> | <u>298,986</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>155,872</u> | <u>143,346</u> |
| Repairs and maintenance | 9,093 | 24,859 |
| Leasing commissions | <u>6,414</u> | <u>9,382</u> |
| Related party transactions capitalized | <u>15,507</u> | <u>34,241</u> |
| Total related party transactions | \$ <u>686,103</u> | \$ <u>656,224</u> |

During the period ended December 27, 2004 and the year ended December 31, 2003, we were charged \$7,313 and \$7,952, respectively, for property maintenance fees from an affiliate of NTS Development Company.

During 2004 and 2003, NTS Development Company leased 20,368 square feet in NTS Center at a rental rate of \$14.50 per square foot. We received approximately \$295,000, or 8%, of total rental income from NTS Development Company during 2004 and 2003.

NTS-PROPERTIES IV

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, received property management fees on a monthly basis. The fees were paid in an amount equal to 5% of the gross receipts from the multifamily property and 6% of the gross receipts from the commercial properties. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of costs incurred which related to capital improvements. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Property management fees | \$ 125,242 | \$ 145,239 |
| Operating expenses reimbursement - Property | 296,208 | 239,620 |
| Operating expenses reimbursement - Leasing | 60,011 | 57,382 |
| Operating expenses reimbursement - Administrative | 106,740 | 74,484 |
| Operating expenses reimbursement - Other | 10,675 | 2,428 |
| Total operating expenses reimbursed to affiliate | <u>473,634</u> | <u>373,914</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>166,250</u> | <u>146,608</u> |
| Repairs and maintenance | 3,889 | 7,444 |
| Leasing commissions | <u>17,069</u> | <u>925</u> |
| Related party transactions capitalized | <u>20,958</u> | <u>8,369</u> |
| Total related party transactions | \$ <u>786,084</u> | \$ <u>674,130</u> |

During 2004 and 2003, NTS Development Company leased 1,604 square feet in Commonwealth Business Center Phase I at a rental rate of \$5.50 per square foot. We received \$8,822 in rental payments from NTS Development Company during 2004 and 2003.

NTS-PROPERTIES V

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, received property management fees on a monthly basis. The fees were paid in an amount equal to 5% of the gross receipts from the multifamily property and 6% of the gross receipts from the commercial properties. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of costs incurred which related to capital improvements. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts from NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Property management fees | \$ 276,476 | \$ 286,176 |
| Operating expenses reimbursement - Property | 443,260 | 391,933 |
| Operating expenses reimbursement - Leasing | 47,783 | 74,119 |
| Operating expenses reimbursement - Administrative | 130,116 | 105,386 |
| Operating expenses reimbursement - Other | 8,206 | 912 |
| Total operating expenses reimbursed to affiliate | <u>629,365</u> | <u>572,350</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>212,127</u> | <u>186,979</u> |
| Repairs and maintenance | 16,920 | 6,251 |
| Leasing commissions | <u>567</u> | <u>6,341</u> |
| Related party transactions capitalized | <u>17,487</u> | <u>12,592</u> |
| Total related party transactions | \$ <u>1,135,455</u> | \$ <u>1,058,097</u> |

NTS-PROPERTIES VI

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, received property management fees on a monthly basis. The fees were equal to 5% and 6% of the gross revenues from the multifamily communities and the commercial property, respectively. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of costs incurred which related to capital improvements and major repair and renovation projects. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities. Certain of these items are included in our results of discontinued operations.

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Property management fees | \$ 549,901 | \$ 548,558 |
| Operating expenses reimbursement - Property | 1,061,364 | 1,035,840 |
| Operating expenses reimbursement - Leasing | 140,561 | 156,094 |
| Operating expenses reimbursement - Administrative | 390,518 | 297,022 |
| Operating expenses reimbursement - Other | 29,306 | 12,000 |
| Total operating expenses reimbursed to affiliate | <u>1,621,749</u> | <u>1,500,956</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>432,158</u> | <u>394,841</u> |
| Repairs and maintenance | 32,063 | 37,347 |
| Leasing commissions | <u>10,990</u> | <u>13,938</u> |
| Related party transactions capitalized | <u>43,053</u> | <u>51,285</u> |
| Total related party transactions | \$ <u>2,646,861</u> | \$ <u>2,495,640</u> |

During the period ended December 27, 2004 and the year ended December 31, 2003, we were charged \$28,025 and \$29,643, respectively, for property maintenance fees from an affiliate of NTS Development Company.

NTS-PROPERTIES VII

Pursuant to an agreement with us, NTS Development Company, an affiliate of our general partner, received property management fees on a monthly basis. The fees were equal to 5% of the gross revenues from our multifamily communities. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of costs incurred which related to capital improvements and major repair and renovation projects. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts pursuant to an agreement with NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Property management fees | \$ 79,390 | \$ 82,176 |
| Operating expenses reimbursement - Property | 167,206 | 155,314 |
| Operating expenses reimbursement - Leasing | 25,141 | 27,627 |
| Operating expenses reimbursement - Administrative | 88,408 | 75,108 |
| Operating expenses reimbursement - Other | <u>2,726</u> | <u>6,275</u> |
| Total operating expenses reimbursed to affiliate | <u>283,481</u> | <u>264,324</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>142,424</u> | <u>131,572</u> |
| Repairs and maintenance | <u>-</u> | <u>11,186</u> |
| Total related party transactions | \$ <u>505,295</u> | \$ <u>489,258</u> |

NTS PRIVATE GROUP

NTS Development Company, an affiliate of ours, received property management fees on a monthly basis. The fees were equal to 6% of the gross revenues from commercial and retail properties and \$100 monthly for each commercial land lease. Also pursuant to an agreement, NTS Development Company received a repair and maintenance fee equal to 5% of costs incurred which related to capital improvements and major repair and renovation projects. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

We were charged the following amounts by NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i><u>Period Ended December 27, 2004</u></i> | <i><u>Year Ended December 31, 2003</u></i> |
|--|--|--|
| Property management fees | \$ 559,082 | \$ 556,157 |
| Operating expenses reimbursement - Property | 474,749 | 410,144 |
| Operating expenses reimbursement - Leasing | 80,305 | 107,036 |
| Operating expenses reimbursement - Administrative | 171,943 | 121,321 |
| Operating expenses reimbursement - Other | <u>19,195</u> | <u>11,345</u> |
| Total operating expenses reimbursed to affiliate | <u>746,192</u> | <u>649,846</u> |
| Professional and administrative expenses reimbursed to affiliate | <u>-</u> | <u>-</u> |
| Repairs and maintenance | 43,468 | 73,669 |
| Leasing commissions | 30,152 | 57,015 |
| Construction management | <u>-</u> | <u>5,001</u> |
| Related party transactions capitalized | <u>73,620</u> | <u>135,685</u> |
| Total related party transactions | \$ <u>1,378,894</u> | \$ <u>1,341,688</u> |

During the period ended December 27, 2004 and the year ended December 31, 2003, we were charged \$33,807 and \$23,660, respectively, for property maintenance fees from an affiliate of NTS Development Company.

BLANKENBAKER BUSINESS CENTER 1A

Pursuant to an agreement with the partnerships which formed the Blankenbaker Business Center Joint Venture, NTS Development Company, an affiliate of the general partners of the partnerships, received property management fees on a monthly basis. The fees were equal to 6% of the gross revenues from the partnerships' commercial property. Also permitted by an agreement, NTS Development Company received a repair and maintenance fee equal to 5.9% of costs incurred which related to capital improvements. These repair and maintenance fees were capitalized as part of land, buildings and amenities.

The Blankenbaker Business Center Joint Venture was charged the following amounts pursuant to an agreement with NTS Development Company for the period ended December 27, 2004 and the year ended December 31, 2003. These charges included items which were expensed as operating expenses reimbursed to affiliate or professional and administrative expenses reimbursed to affiliate and items which were capitalized as other assets or as land, buildings and amenities.

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| Property management fees | \$ 56,946 | \$ 56,960 |
| Operating expenses reimbursement - Property | 32,239 | 28,873 |
| Operating expenses reimbursement - Leasing | - | 1,657 |
| Operating expenses reimbursement - Administrative | 12,264 | 11,700 |
| Operating expenses reimbursement - Other | 1,017 | 863 |
| Total operating expenses reimbursed to affiliate | 45,520 | 43,093 |
| Repairs and maintenance | - | 7,817 |
| Total related party transactions | \$ 102,466 | \$ 107,870 |

Note 9 - Commitments and Contingencies

We, as an owner of real estate, are subject to various environmental laws of federal, state and local governments. Our compliance with existing laws has not had a material adverse effect on our financial condition and results of operations. However, we cannot predict the impact of new or changed laws or regulations on our current properties or on properties that we may acquire in the future.

Litigation

On May 6, 2004, the Superior Court of the State of California for the County of Contra Costa granted its final approval of the settlement agreement jointly filed by the general partners (the "Former General Partners") of the Partnerships, along with certain of their affiliates, with the class of plaintiffs in the action originally captioned Buchanan, et al. v. NTS-Properties Associates, et al. (Case No. C 01-05090) (the "California Litigation") on December 5, 2003. At the final hearing, class members were given the opportunity to object to the final approval of the settlement agreement, the entry of a final judgment dismissing with prejudice the California Litigation, or an application of an award for attorneys' fees and expenses to plaintiffs' counsel. The Superior Court's order provided, among other things, that: (1) the settlement agreement, and all transactions contemplated thereby, including the merger of the Partnerships into us, were fair, reasonable and adequate, and in the best interests of the class of plaintiffs; (2) the plaintiffs' complaint and each and every cause of action and claim set forth therein is dismissed with prejudice; and (3) each class member who did not request to be excluded from the settlement released all known and unknown claims against the defendants, including those claims being pursued in a competing class action in Kentucky, which is discussed in further detail below.

On June 11, 2004, several class members who objected to the settlement agreement but whose objections were overruled by the Superior Court, filed an appeal in the Court of Appeal of the State of California, First Appellate District. On July 28, 2005, the Court of Appeal issued its decision affirming the Superior Court's approval of the settlement, and rejecting the objectors' arguments. On October 5, 2005, the Court of Appeal of the State of California, First Appellate District entered a Remittitur Order stating that the time for appeal had expired and that the judgment of the Appellate Court was final. This effectively concludes the litigation. The matter was then sent back to the Superior Court of the State of California for the County of Contra Costa in order to conduct proceedings to effectuate the settlement.

On February 27, 2003, two individuals filed a class and derivative action in the Circuit Court of Jefferson County, Kentucky captioned Bohm, et al. v. J.D. Nichols, et al. (Case No. 03-CI-01740) (the "Kentucky Litigation") against certain of the Former General Partners and several individuals and entities affiliated with us. The complaint was amended to include the general partner of NTS-Properties III and the general partner of NTS-Properties Plus Ltd. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, a declaratory judgment and injunctive relief.

On March 2, 2004, the Former General Partners filed a motion to dismiss the Kentucky Litigation. After the motion to dismiss was briefed, the settlement agreement in the California Litigation (discussed above) received final court approval. The Circuit Court of Jefferson County, Kentucky, instructed the plaintiffs in the Kentucky Litigation to file an amended complaint in light of the approved settlement of the California Litigation. The plaintiffs' six opt-outs from the California Litigation filed a corrected second amended complaint on August 11, 2004.

On February 9, 2005, the Circuit Court instructed the defendants to file a responsive pleading only as to direct claims asserted by the plaintiffs in the Corrected Second Amended Complaint. On March 9, 2005, the Former General Partners, along with the other defendants, filed motions to dismiss the "corrected" second amended complaint.

On July 7, 2005, two of the plaintiffs in the Kentucky Litigation voluntarily dismissed their claims against the defendants. The Former General Partners believe that these dismissals affect the value and scope of plaintiffs' claims. Accordingly, defendants remanded the hearing on the motion to dismiss originally scheduled for July 15, 2005, in order to properly advise the Court of the effect of the voluntary dismissals. A hearing on the motion to dismiss has been rescheduled for September 29, 2006.

Our legal counsel and we believe that the litigation pending in Kentucky is without merit, and therefore, are continuing to vigorously defend against it. No amounts have been accrued for the settlement of this action in our financial statements.

We do not believe there is any other litigation threatened against us other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material effect on our financial position or results of operations.

Merger/Settlement Charge

NTS Realty was formed as part of a class action settlement where its affiliate and limited partner ORIG admitted a “qualified settlement trust” as a special member of ORIG. This special member interest was created for the benefit of the class members in the litigation who are former limited partners who sold their limited partnership interests to ORIG, its affiliates or the Partnerships either as part of tender offers, other repurchase programs or otherwise. Under the terms of ORIG’s operating agreement, all of the economic and other rights associated with up to 620,000 Units owned by ORIG have been designated for the benefit of the qualified settlement trust. ORIG owns the Units, but all of the rights associated with the Units inures to the qualified settlement trust. Plaintiffs’ counsel, or his designee, will have the right, acting as a representative of these former limited partners, to cause ORIG to vote these designated Units pursuant to his direction. The amount of Units was determined based on the \$6.2 million noncash amount of the \$6.85 million settlement amount agreed upon by the general partners and plaintiffs’ counsel. Therefore, if each Unit is valued at \$10.00, then the economic and other rights associated with 620,000 Units will be needed to satisfy the settlement amount. The final amount of the settlement, however, is based on the aggregate amount of valid claims filed by the former limited partners in the class of plaintiffs. If claims are not made for the full \$6.2 million settlement amount, ORIG will designate the economic and other rights to fewer Units for the benefit of the qualified settlement trust to satisfy the claims. We refer to these designated Units as the “Class Units.” Under the terms of the settlement agreement governing the qualified settlement trust, Mr. Nichols, his spouse and Mr. Lavin are jointly obligated, for a period of two years ending December 28, 2007, to repurchase from the qualified settlement trust, using 75% of the distributions that ORIG receives in respect of the Units owned by ORIG which otherwise would have gone to Mr. Nichols, his spouse or Mr. Lavin, the economic and other rights associated with the number of Class Units calculated under the formula described below. Each payment results in the redesignation of rights associated with the number of Class Units equal to the amount of the distribution divided by 115% of the “fair market value” of the Units. As a result of each payment, the number of Class Units designated for the benefit of the qualified settlement trust will decrease until the economic and other rights associated with all of the Class Units are ultimately redesignated for the benefit of Mr. Nichols, his spouse, and/or Mr. Lavin within two years of when we begin making distributions. If any Class Units remain at the end of this two-year period, Mr. Nichols, his spouse and Mr. Lavin must make a final payment to the qualified settlement trust that is sufficient to redesignate any remaining Class Units. For these purposes, fair market value will be equal to the average closing price of the Units on the American Stock Exchange for the thirty-day period prior to the date of the redesignation. Our Statement of Operations includes a noncash charge in 2004 for our estimate related to the settlement with a corresponding credit to Partners’ Equity immediately following the completion of the merger. The noncash charge was approximately \$2.9 million. Our earnings in 2004 were negatively impacted by this noncash charge. However, there was no effect on our future liquidity because Mr. Nichols, his spouse and Mr. Lavin must make the payments to the qualified settlement trust to redesignate the Class Units as set forth above.

Note 10 - Segment Reporting

NTS REALTY

Our reportable operating segments include - Multifamily, Commercial, Retail and Land Real Estate Operations. The following unaudited financial information of the operating segments has been prepared using a management approach, which is consistent with the basis and manner in which our management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. We evaluate performance based on stand-alone operating segment net income or loss. Expenses at the Partnership level are represented in the nonsegment column.

| | <i>Year Ended December 31, 2005</i> | | | | | |
|--|-------------------------------------|--------------------------|----------------------|--------------------|--------------------------|-----------------------|
| | <u><i>Multifamily</i></u> | <u><i>Commercial</i></u> | <u><i>Retail</i></u> | <u><i>Land</i></u> | <u><i>Nonsegment</i></u> | <u><i>Total</i></u> |
| Rental income..... | \$ 9,920,850 | \$ 16,702,953 | \$ 1,368,658 | \$ 36,169 | \$ (317,073) | \$ 27,711,557 |
| Tenant reimbursements | - | 2,121,081 | 75,376 | - | - | 2,196,457 |
| Total revenue | 9,920,850 | 18,824,034 | 1,444,034 | 36,169 | (317,073) | 29,908,014 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 4,108,573 | 5,781,996 | 111,985 | 541 | - | 10,003,095 |
| Management fees..... | 492,428 | 858,018 | 49,619 | - | - | 1,400,065 |
| Property taxes and insurance..... | 1,016,390 | 1,608,583 | 38,088 | 1,628 | 182,840 | 2,847,529 |
| Professional and administrative expenses and professional and administrative expenses reimbursed to affiliate..... | - | - | - | - | 4,173,899 | 4,173,899 |
| Depreciation and amortization | 2,754,807 | 4,772,982 | 282,373 | 2,607 | - | 7,812,769 |
| Total operating expenses | 8,372,198 | 13,021,579 | 482,065 | 4,776 | 4,356,739 | 26,237,357 |
| Operating income (loss) | 1,548,652 | 5,802,455 | 961,969 | 31,393 | (4,673,812) | 3,670,657 |
| Interest and other income | 8,043 | 82,292 | 89 | - | 352,740 | 443,164 |
| Interest expense | (2,054,790) | (3,578,762) | (387,299) | - | (1,210,127) | (7,230,978) |
| Loss on disposal of assets | (152,906) | (277,311) | (189,551) | - | - | (619,768) |
| Income from investment in joint venture.... | - | - | - | - | 953,300 | 953,300 |
| (Loss) income from continuing operations | (651,001) | 2,028,674 | 385,208 | 31,393 | (4,577,899) | (2,783,625) |
| Discontinued operations, net..... | 745,238 | - | - | - | - | 745,238 |
| Gain on sale of discontinued operations | - | - | 270,842 | - | - | 270,842 |
| Net income (loss) | \$ 94,237 | \$ 2,028,674 | \$ 656,050 | \$ 31,393 | \$ (4,577,899) | \$ (1,767,545) |
| Land, buildings and amenities, net..... | \$ 66,005,519 | \$ 74,507,941 | \$ 7,953,858 | \$ 158,926 | \$ - | \$ 148,626,244 |
| Expenditures for land, buildings and amenities | \$ 17,118,247 | \$ 5,240,384 | \$ 306,531 | \$ - | \$ - | \$ 22,665,162 |
| Segment liabilities from continuing operations, net | \$ 13,448,188 | \$ 8,078,766 | \$ 2,775,046 | \$ - | \$ 121,084,941 | \$ 145,386,941 |
| Segment liabilities from discontinued operations, net | 371,687 | - | - | - | - | 371,687 |
| Segment liabilities | \$ 13,819,875 | \$ 8,078,766 | \$ 2,775,046 | \$ - | \$ 121,084,941 | \$ 145,758,628 |

NTS-PROPERTIES III

Our reportable operating segments included only one segment - Commercial Real Estate Operations.

NTS-PROPERTIES IV

Our reportable operating segments included - Multifamily and Commercial Real Estate Operations. The multifamily operations represented our ownership and operating results relative to a multifamily community known as The Willows of Plainview Phase I. The commercial operations represented our ownership and operating results relative to suburban commercial office space known as Commonwealth Business Center Phase I and Plainview Point Office Center Phases I and II.

The financial information of the operating segments was prepared using a management approach, which was consistent with the basis and manner in which our management internally reported financial information for the purposes of assisting in making internal operating decisions. Our management evaluated performance based on stand-alone operating segment net income or loss.

Certain items such as professional and administrative expenses and joint venture income or loss incurred at the Partnership level were not allocated to the operating segments.

| | <i>Period Ended December 27, 2004</i> | | |
|---|---------------------------------------|--------------------------|---------------------|
| | <i>Multifamily</i> | <i>Commercial</i> | <i>Total</i> |
| Rental income..... | \$ 1,049,296 | \$ 1,015,289 | \$ 2,064,585 |
| Tenant reimbursements | - | 170,362 | 170,362 |
| Total revenue | 1,049,296 | 1,185,651 | 2,234,947 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 476,779 | 435,946 | 912,725 |
| Management fees..... | 53,238 | 72,004 | 125,242 |
| Property taxes and insurance..... | 91,069 | 83,225 | 174,294 |
| Depreciation and amortization | 205,319 | 279,780 | 485,099 |
| Total operating expenses | 826,405 | 870,955 | 1,697,360 |
| Operating income | 222,891 | 314,696 | 537,587 |
| Interest and other income..... | 1,116 | 6,055 | 7,171 |
| Interest expense..... | (536,784) | (15,853) | (552,637) |
| Loss on disposal of assets | (6,592) | (5,608) | (12,200) |
| Net (loss) income..... | \$ (319,369) | \$ 299,290 | \$ (20,079) |

| | <i>Year Ended December 31, 2003</i> | | |
|---|-------------------------------------|--------------------------|--------------------------|
| | <i><u>Multifamily</u></i> | <i><u>Commercial</u></i> | <i><u>Total</u></i> |
| Rental income..... | \$ 1,139,765 | \$ 1,273,026 | \$ 2,412,791 |
| Tenant reimbursements | <u>-</u> | <u>180,238</u> | <u>180,238</u> |
| Total revenue | 1,139,765 | 1,453,264 | 2,593,029 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 412,907 | 412,351 | 825,258 |
| Management fees..... | 56,764 | 88,475 | 145,239 |
| Property taxes and insurance..... | 87,532 | 77,112 | 164,644 |
| Depreciation and amortization | <u>205,406</u> | <u>298,393</u> | <u>503,799</u> |
| Total operating expenses | <u>762,609</u> | <u>876,331</u> | <u>1,638,940</u> |
| Operating income | 377,156 | 576,933 | 954,089 |
| Interest and other income | 237 | 4,758 | 4,995 |
| Interest expense | (211,536) | (52,361) | (263,897) |
| Loss on disposal of assets | <u>-</u> | <u>(16,895)</u> | <u>(16,895)</u> |
| Net income | \$ <u>165,857</u> | \$ <u>512,435</u> | \$ <u>678,292</u> |
| Land, buildings and amenities, net..... | \$ <u>3,082,611</u> | \$ <u>2,761,920</u> | \$ <u>5,844,531</u> |
| Expenditures for land, buildings and amenities..... | \$ <u>12,690</u> | \$ <u>105,483</u> | \$ <u>118,173</u> |
| Segment liabilities | \$ <u>2,909,359</u> | \$ <u>459,125</u> | \$ <u>3,368,484</u> |

A reconciliation of the totals reported for the operating segments to the applicable line items in the financial statements was necessary given amounts recorded at the Partnership level and not allocated to the operating properties for internal reporting purposes:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| PROPERTY TAXES AND INSURANCE | | |
| Property taxes and insurance for reportable segments | \$ 174,294 | \$ 164,644 |
| Property taxes and insurance for Partnership | <u>169</u> | <u>46</u> |
| Total property taxes and insurance | \$ <u>174,463</u> | \$ <u>164,690</u> |
| DEPRECIATION AND AMORTIZATION | | |
| Depreciation and amortization for reportable segments | \$ 485,099 | \$ 503,799 |
| Depreciation and amortization for Partnership | <u>3,363</u> | <u>6,116</u> |
| Total depreciation and amortization | \$ <u>488,462</u> | \$ <u>509,915</u> |
| INTEREST AND OTHER INCOME | | |
| Interest and other income for reportable segments | \$ 7,171 | \$ 4,995 |
| Interest and other income for Partnership | <u>204,337</u> | <u>2,899</u> |
| Total interest and other income | \$ <u>211,508</u> | \$ <u>7,894</u> |
| NET (LOSS) INCOME | | |
| Net (loss) income for reportable segments | \$ (20,079) | \$ 678,292 |
| Net loss for Partnership (1) | <u>(620,321)</u> | <u>(420,926)</u> |
| Total net (loss) income | \$ <u>(640,400)</u> | \$ <u>257,366</u> |
| LAND, BUILDINGS AND AMENITIES | | |
| Land, buildings and amenities for reportable segments | \$ N/A | \$ 5,844,531 |
| Land, building and amenities for Partnership | <u>N/A</u> | <u>2,690</u> |
| Total land, buildings and amenities | \$ <u>N/A</u> | \$ <u>5,847,221</u> |
| LIABILITIES | | |
| Liabilities for reportable segments | \$ N/A | \$ 3,368,484 |
| Liabilities for Partnership | <u>N/A</u> | <u>163,056</u> |
| Total liabilities | \$ <u>N/A</u> | \$ <u>3,531,540</u> |

- (1) The Partnership net loss was primarily composed of professional and administrative costs born by the Partnership and also included any joint venture income or loss recorded at the Partnership level and not allocated to the operating segments. The professional and administrative costs included the tax and public company reporting and compliance costs associated with a public limited partnership.

NTS-PROPERTIES V

Our reportable operating segments included - Multifamily and Commercial Real Estate Operations. The multifamily operations represented our ownership and operating results relative to a multifamily community known as The Willows of Plainview Phase II. The commercial operations represented our ownership and operating results relative to suburban commercial office space known as Commonwealth Business Center Phase II and Lakeshore Business Center Phases I, II and III.

The financial information of the operating segments was prepared using a management approach, which was consistent with the basis and manner in which our management internally reported financial information for the purposes of assisting in making internal operating decisions. Our management evaluated performance based on stand-alone operating segment net income or loss. Professional and administrative expenses, interest and other income, depreciation, interest expense and minority interest income or loss recorded at the Partnership level were not allocated to the segments.

| | <i>Period Ended December 27, 2004</i> | | |
|--|---------------------------------------|--------------------------|-----------------------|
| | <i><u>Multifamily</u></i> | <i><u>Commercial</u></i> | <i><u>Total</u></i> |
| Rental income..... | \$ 1,111,361 | \$ 2,720,092 | \$ 3,831,453 |
| Tenant reimbursements | - | 1,156,227 | 1,156,227 |
| Total revenue | 1,111,361 | 3,876,319 | 4,987,680 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 531,975 | 1,390,906 | 1,922,881 |
| Management fees..... | 57,043 | 219,433 | 276,476 |
| Property taxes and insurance..... | 102,880 | 736,494 | 839,374 |
| Depreciation and amortization | 258,567 | 1,049,785 | 1,308,352 |
| Total operating expenses | 950,465 | 3,396,618 | 4,347,083 |
| Operating income | 160,896 | 479,701 | 640,597 |
| Interest and other income | 721 | 26,556 | 27,277 |
| Interest expense..... | (704,842) | (1,282,782) | (1,987,624) |
| Loss on disposal of assets | (5,698) | (483) | (6,181) |
| Net loss | \$ (548,923) | \$ (777,008) | \$ (1,325,931) |

| | <i>Year Ended December 31, 2003</i> | | |
|---|-------------------------------------|--------------------------|--------------------------|
| | <i><u>Multifamily</u></i> | <i><u>Commercial</u></i> | <i><u>Total</u></i> |
| Rental income..... | \$ 1,232,075 | \$ 2,738,267 | \$ 3,970,342 |
| Tenant reimbursements | <u>-</u> | <u>1,110,788</u> | <u>1,110,788</u> |
| Total revenue | 1,232,075 | 3,849,055 | 5,081,130 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 463,294 | 1,220,602 | 1,683,896 |
| Management fees..... | 61,971 | 224,205 | 286,176 |
| Property taxes and insurance..... | 97,961 | 733,814 | 831,775 |
| Depreciation and amortization | <u>228,427</u> | <u>995,648</u> | <u>1,224,075</u> |
| Total operating expenses | <u>851,653</u> | <u>3,174,269</u> | <u>4,025,922</u> |
| Operating income | 380,422 | 674,786 | 1,055,208 |
| Interest and other income | 754 | 43,913 | 44,667 |
| Interest expense | (278,086) | (678,678) | (956,764) |
| Loss on disposal of assets | <u>(2,070)</u> | <u>(3,714)</u> | <u>(5,784)</u> |
| Net income | \$ <u>101,020</u> | \$ <u>36,307</u> | \$ <u>137,327</u> |
| Land, buildings and amenities, net..... | \$ <u>3,432,043</u> | \$ <u>16,925,973</u> | \$ <u>20,358,016</u> |
| Expenditures for land, buildings and amenities..... | \$ <u>14,382</u> | \$ <u>833,205</u> | \$ <u>847,587</u> |
| Segment liabilities | \$ <u>3,940,786</u> | \$ <u>10,696,988</u> | \$ <u>14,637,774</u> |

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements was necessary given amounts recorded at the Partnership level and not allocated to the operating properties for internal reporting purposes:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|---|---|---|
| PROPERTY TAXES AND INSURANCE | | |
| Property taxes and insurance for reportable segments | \$ 839,374 | \$ 831,775 |
| Property taxes and insurance for Partnership | <u>235</u> | <u>91</u> |
| Total property taxes and insurance | \$ <u>839,609</u> | \$ <u>831,866</u> |
| DEPRECIATION AND AMORTIZATION | | |
| Depreciation and amortization for reportable segments | \$ 1,308,352 | \$ 1,224,075 |
| Depreciation and amortization for Partnership | <u>15,074</u> | <u>18,619</u> |
| Total depreciation and amortization | \$ <u>1,323,426</u> | \$ <u>1,242,694</u> |
| INTEREST AND OTHER INCOME | | |
| Interest and other income for reportable segments | \$ 27,277 | \$ 44,667 |
| Interest and other income for Partnership | <u>347,505</u> | <u>82,267</u> |
| Total interest and other income | \$ <u>374,782</u> | \$ <u>126,934</u> |
| INTEREST EXPENSE | | |
| Interest expense for reportable segments | \$ 1,987,624 | \$ 956,764 |
| Interest expense for Partnership | <u>93,326</u> | <u>20,362</u> |
| Total interest expense | \$ <u>2,080,950</u> | \$ <u>977,126</u> |
| NET (LOSS) INCOME | | |
| Net (loss) income for reportable segments | \$ (1,325,931) | \$ 137,327 |
| Net loss for Partnership (1) | (817,995) | (804,681) |
| Minority interest | <u>212,619</u> | <u>5,090</u> |
| Total net loss | \$ <u>(1,931,307)</u> | \$ <u>(662,264)</u> |
| LAND, BUILDINGS AND AMENITIES | | |
| Land, buildings and amenities for reportable segments | \$ N/A | \$ 20,358,016 |
| Land, building and amenities for Partnership | <u>N/A</u> | <u>2,392</u> |
| Total land, buildings and amenities | \$ <u>N/A</u> | \$ <u>20,360,408</u> |
| LIABILITIES | | |
| Liabilities for reportable segments | \$ N/A | \$ 14,637,774 |
| Liabilities for Partnership | <u>N/A</u> | <u>399,903</u> |
| Total liabilities | \$ <u>N/A</u> | \$ <u>15,037,677</u> |

- (1) The Partnership net loss was primarily composed of professional and administrative costs born by the Partnership as well as interest and other income, depreciation, interest expense and minority interest recorded at the Partnership level and not allocated to the operating segments. The professional and administrative costs included the tax and public company reporting and compliance costs associated with a public limited partnership.

NTS-PROPERTIES VI

Our reportable operating segments included - Multifamily and Commercial Real Estate Operations. The multifamily operations represented our ownership and operating results relative to the multifamily communities known as Willow Lake Apartments, Park Place Apartments Phases I and III, Sabal Park Apartments and Golf Brook Apartments. The commercial operations represented our ownership and operating results relative to suburban commercial office space known as Plainview Point Office Center Phase III.

The financial information of the operating segments was prepared using a management approach, which was consistent with the basis and manner in which our management internally disaggregated financial information for the purposes of assisting in making internal operating decisions. We evaluated performance based on stand-alone operating segment net income or loss. Professional and administrative expenses, depreciation and amortization, interest and other income, interest expense and minority interest income or loss recorded at the Partnership level were not allocated to the segments.

| | <i>Period Ended December 27, 2004</i> | | |
|--|---------------------------------------|--------------------------|---------------------|
| | <i><u>Multifamily</u></i> | <i><u>Commercial</u></i> | <i><u>Total</u></i> |
| Rental income..... | \$ 5,158,377 | \$ 734,985 | \$ 5,893,362 |
| Tenant reimbursements | - | 1,611 | 1,611 |
| Total revenue | 5,158,377 | 736,596 | 5,894,973 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 2,032,244 | 337,778 | 2,370,022 |
| Management fees..... | 262,130 | 44,240 | 306,370 |
| Property taxes and insurance..... | 378,422 | 56,427 | 434,849 |
| Depreciation and amortization | 1,513,466 | 225,704 | 1,739,170 |
| Total operating expenses | 4,186,262 | 664,149 | 4,850,411 |
| Operating income | 972,115 | 72,447 | 1,044,562 |
| Interest and other income | 13,243 | 355 | 13,598 |
| Interest expense..... | (1,276,438) | (22,272) | (1,298,710) |
| Loss on disposal of assets | (852) | (4,134) | (4,986) |
| (Loss) income from continuing operations | (291,932) | 46,396 | (245,536) |
| Discontinued operations, net..... | (10,569) | - | (10,569) |
| Net (loss) income..... | \$ (302,501) | \$ 46,396 | \$ (256,105) |

| | <i>Year Ended December 31, 2003</i> | | |
|---|-------------------------------------|---------------------------|----------------------------|
| | <i><u>Multifamily</u></i> | <i><u>Commercial</u></i> | <i><u>Total</u></i> |
| Rental income..... | \$ 5,429,722 | \$ 510,476 | \$ 5,940,198 |
| Tenant reimbursements | <u>-</u> | <u>2,743</u> | <u>2,743</u> |
| Total revenue | 5,429,722 | 513,219 | 5,942,941 |
| Operating expenses and operating expenses reimbursed to affiliate..... | 1,931,970 | 289,587 | 2,221,557 |
| Management fees..... | 273,090 | 31,504 | 304,594 |
| Property taxes and insurance..... | 746,883 | 43,399 | 790,282 |
| Depreciation and amortization | <u>1,484,289</u> | <u>206,505</u> | <u>1,690,794</u> |
| Total operating expenses | <u>4,436,232</u> | <u>570,995</u> | <u>5,007,227</u> |
| Operating income (loss) | 993,490 | (57,776) | 935,714 |
| Interest and other income | 35,820 | 470 | 36,290 |
| Interest expense | (464,814) | - | (464,814) |
| Loss on disposal of assets | <u>(98,945)</u> | <u>-</u> | <u>(98,945)</u> |
| Income (loss) from continuing operations | <u>465,551</u> | <u>(57,306)</u> | <u>408,245</u> |
| Discontinued operations, net..... | <u>924,715</u> | <u>-</u> | <u>924,715</u> |
| Net income (loss)..... | \$ <u>1,390,266</u> | \$ <u>(57,306)</u> | \$ <u>1,332,960</u> |
| Land, buildings and amenities, net..... | \$ <u>24,804,996</u> | \$ <u>2,164,103</u> | \$ <u>26,969,099</u> |
| Expenditures for land, buildings and amenities..... | \$ <u>570,748</u> | \$ <u>132,357</u> | \$ <u>703,105</u> |
| Segment liabilities | \$ <u>6,806,270</u> | \$ <u>164,322</u> | \$ <u>6,970,592</u> |

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements was necessary given amounts recorded at the Partnership level and not allocated to the operating properties for internal reporting purposes:

| | <i>Period Ended December 27, 2004</i> | <i>Year Ended December 31, 2003</i> |
|--|---|---|
| DEPRECIATION AND AMORTIZATION | | |
| Depreciation and amortization for reportable segments | \$ 1,739,170 | \$ 1,690,794 |
| Depreciation and amortization for Partnership | <u>78,771</u> | <u>89,466</u> |
| Total depreciation and amortization | \$ <u>1,817,941</u> | \$ <u>1,780,260</u> |
| INTEREST AND OTHER INCOME | | |
| Interest and other income for reportable segments | \$ 13,598 | \$ 36,290 |
| Interest and other income for Partnership | <u>730,566</u> | <u>89,368</u> |
| Total interest and other income | \$ <u>744,164</u> | \$ <u>125,658</u> |
| INTEREST EXPENSE | | |
| Interest expense for reportable segments | \$ 1,298,710 | \$ 464,814 |
| Interest expense for Partnership | <u>884,263</u> | <u>1,646,668</u> |
| Total interest expense | \$ <u>2,182,973</u> | \$ <u>2,111,482</u> |
| NET (LOSS) INCOME | | |
| Net (loss) income for reportable segments | \$ (245,536) | \$ 408,245 |
| Net loss for Partnership (1) | (1,693,763) | (2,805,037) |
| Minority interest | 35,561 | 35,228 |
| Discontinued operations, net | <u>(10,569)</u> | <u>924,715</u> |
| Total net loss | \$ <u>(1,985,429)</u> | \$ <u>(1,507,305)</u> |
| LAND, BUILDINGS AND AMENITIES | | |
| Land, buildings and amenities for reportable segments | \$ N/A | \$ 26,969,099 |
| Land, buildings and amenities for Partnership | N/A | 3,887 |
| Land, buildings and amenities for discontinued operations, net | <u>N/A</u> | <u>13,473,451</u> |
| Total land, buildings and amenities | \$ <u>N/A</u> | \$ <u>40,446,437</u> |
| LIABILITIES | | |
| Liabilities for reportable segments | \$ N/A | \$ 6,970,592 |
| Liabilities for Partnership (2) | N/A | 20,573,242 |
| Liabilities for discontinued operations, net | <u>N/A</u> | <u>5,931,760</u> |
| Total liabilities | \$ <u>N/A</u> | \$ <u>33,475,594</u> |

- (1) The Partnership's net loss was primarily composed of professional and administrative costs born by the Partnership and also included interest expense, depreciation and minority interest recorded at the Partnership level and not allocated to the operating segments. The professional and administrative costs included the tax and public company reporting and compliance costs associated with a public limited partnership.
- (2) These amounts primarily represented the mortgages held by us secured by the assets of the operating segments.

NTS-PROPERTIES VII

Our reportable operating segments included only one segment - Multifamily Operations.

NTS PRIVATE GROUP

Our reportable operating segments included - Land, Retail and Commercial Real Estate Operations. The retail operations represented our ownership and operating results relative to Springs Station and Outlets Mall properties located in Louisville, Kentucky. The commercial operations represented our ownership and operating results relative to suburban commercial office space located in Louisville, Kentucky. The land operations represented our ownership and operating results relative to a ground lease located in Louisville, Kentucky.

The financial information of the operating segments was prepared using a management approach, which was consistent with the basis and manner in which our management internally disaggregated financial information for the purposes of assisting in making internal operating decisions. We evaluated performance based on stand-alone operating segment net income or loss.

| | <i>Period Ended December 27, 2004</i> | | | |
|--|---------------------------------------|---------------|-------------------|----------------|
| | <i>Land</i> | <i>Retail</i> | <i>Commercial</i> | <i>Total</i> |
| Rental income..... | \$ 45,087 | \$ 1,281,893 | \$ 7,441,255 | \$ 8,768,235 |
| Tenant reimbursements..... | - | 76,349 | 428,985 | 505,334 |
| Total revenue | 45,087 | 1,358,242 | 7,870,240 | 9,273,569 |
| Operating expenses and operating expenses reimbursed to affiliate | 1,133 | 225,740 | 2,100,847 | 2,327,720 |
| Management fees..... | 1,200 | 81,579 | 476,303 | 559,082 |
| Property taxes and insurance..... | 1,581 | 37,297 | 469,838 | 508,716 |
| Professional and administrative expenses..... | 32,793 | 35,080 | 90,501 | 158,374 |
| Depreciation and amortization | 5,087 | 315,343 | 1,686,923 | 2,007,353 |
| Total operating expenses | 41,794 | 695,039 | 4,824,412 | 5,561,245 |
| Operating income | 3,293 | 663,203 | 3,045,828 | 3,712,324 |
| Interest and other income..... | - | 647 | 22,110 | 22,757 |
| Interest expense..... | - | (423,166) | (5,432,268) | (5,855,434) |
| Loss on disposal of assets | - | - | (38,706) | (38,706) |
| Net income (loss) | \$ 3,293 | \$ 240,684 | \$ (2,403,036) | \$ (2,159,059) |

| | <i>Year Ended December 31, 2003</i> | | | |
|--|-------------------------------------|----------------------|--------------------------|---------------------|
| | <u><i>Land</i></u> | <u><i>Retail</i></u> | <u><i>Commercial</i></u> | <u><i>Total</i></u> |
| Rental income..... | \$ 53,537 | \$ 1,280,514 | \$ 7,420,793 | \$ 8,754,844 |
| Tenant reimbursements | - | 90,003 | 424,587 | 514,590 |
| Total revenue | 53,537 | 1,370,517 | 7,845,380 | 9,269,434 |
| Operating expenses and operating expenses reimbursed to affiliate | 2,261 | 86,186 | 1,940,145 | 2,028,592 |
| Management fees..... | 1,200 | 81,445 | 473,512 | 556,157 |
| Property taxes and insurance..... | 1,561 | 35,240 | 448,695 | 485,496 |
| Professional and administrative expenses..... | 24,861 | 24,861 | 66,294 | 116,016 |
| Depreciation and amortization | 5,087 | 293,497 | 1,617,913 | 1,916,497 |
| Total operating expenses | 34,970 | 521,229 | 4,546,559 | 5,102,758 |
| Operating income | 18,567 | 849,288 | 3,298,821 | 4,166,676 |
| Interest and other income | - | 429 | 18,500 | 18,929 |
| Interest and other income due from affiliate..... | 3,741 | 11,613 | 38,881 | 54,235 |
| Interest expense | - | (451,724) | (2,421,281) | (2,873,005) |
| Interest expense due to affiliate | (238) | - | (69,331) | (69,569) |
| Loss on disposal of assets | - | - | (119,773) | (119,773) |
| Net income | \$ 22,070 | \$ 409,606 | \$ 745,817 | \$ 1,177,493 |
| Land, buildings and amenities, net..... | \$ 163,111 | \$ 7,664,048 | \$ 27,288,180 | \$ 35,115,339 |
| Expenditures for land, buildings and amenities | \$ - | \$ 142,285 | \$ 1,041,555 | \$ 1,183,840 |
| Segment liabilities, net | \$ 5,553 | \$ 5,941,154 | \$ 31,630,010 | \$ 37,576,717 |

BLANKENBAKER BUSINESS CENTER 1A

The joint venture's reportable operating segments included only one segment - Commercial Real Estate Operations.

Note 11 - Selected Quarterly Financial Data (Unaudited)

NTS REALTY

| <i>2005</i> | <i>For the Quarters Ended</i> | | | |
|---|-------------------------------|----------------|---------------------|--------------------|
| | <i>March 31</i> | <i>June 30</i> | <i>September 30</i> | <i>December 31</i> |
| Total revenues | \$ 7,249,639 | \$ 7,487,963 | \$ 7,542,367 | \$ 7,628,045 |
| Operating income | 1,014,136 | 1,114,774 | 1,068,056 | 473,691 |
| Discontinued operations, net | 122,783 | 69,254 | 144,154 | 409,047 |
| Loss from continuing operations allocated to limited partners | (572,697) | (602,735) | (814,000) | (619,449) |
| Discontinued operations, net allocated to limited partners | 115,075 | 64,907 | 135,105 | 383,368 |
| Gain on sale of discontinued operations allocated to limited partners | - | - | - | 253,840 |
| Loss from continuing operations per limited partnership unit | (0.05) | (0.06) | (0.08) | (0.06) |
| Discontinued operations, net per limited partnership unit | 0.01 | 0.01 | 0.01 | 0.04 |
| Gain on sale of discontinued operations per limited partnership unit | - | - | - | 0.02 |

| <i>2004</i> | <i>For the Quarters Ended</i> | | | |
|--|-------------------------------|----------------|---------------------|--------------------|
| | <i>March 31</i> | <i>June 30</i> | <i>September 30</i> | <i>December 31</i> |
| Net loss | \$ (18,041) | \$ (286) | \$ (5,789) | \$ (3,245,424)(1) |
| Net loss allocated to the limited partners | (16,908) | (268) | (5,426) | (3,041,689) |
| Net loss per limited partnership unit | - | - | - | (0.29) |

(1) See Note 9 - Commitments and Contingencies for a discussion of our Merger/Settlement Charge.

NTS-PROPERTIES III

| <i>2004</i> | <i>For the Quarters Ended</i> | | | |
|---|-------------------------------|----------------|---------------------|--------------------|
| | <i>March 31</i> | <i>June 30</i> | <i>September 30</i> | <i>December 31</i> |
| Total revenues | \$ 934,067 | \$ 941,357 | \$ 955,054 | \$ 980,530 |
| Operating income | 118,630 | 169,855 | 210,636 | 135,231 |
| Net income (loss) allocated to the limited partners | 31,184 | 82,594 | 125,578 | (443,891) |
| Net income (loss) per limited partnership unit | 2.48 | 6.57 | 9.99 | (35.31) |

NTS-PROPERTIES IV

| <i>2004</i> | <i>For the Quarters Ended</i> | | | |
|--|-------------------------------|----------------|---------------------|--------------------|
| | <i>March 31</i> | <i>June 30</i> | <i>September 30</i> | <i>December 31</i> |
| Total revenues | \$ 597,208 | \$ 584,315 | \$ 557,256 | \$ 496,168 |
| Operating (loss) income | (86,370) | 5,068 | (10,955) | (157,891) |
| Net loss allocated to the limited partners | (116,877) | (17,261) | (61,512) | (438,346) |
| Net loss per limited partnership unit | (4.85) | (0.72) | (2.55) | (18.18) |

NTS-PROPERTIES V

| <u>2004</u> | <i>For the Quarters Ended</i> | | | |
|--|-------------------------------|----------------|---------------------|--------------------|
| | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
| Total revenues | \$ 1,215,284 | \$ 1,279,607 | \$ 1,257,912 | \$ 1,234,877 |
| Operating (loss) income | (181,759) | 29,120 | (142,563) | (136,375) |
| Minority interest | (10,364) | 694 | (28,098) | (174,851) |
| Net loss allocated to the limited partners | (406,332) | (211,541) | (346,814) | (947,307) |
| Net loss per limited partnership unit | (13.31) | (6.93) | (11.36) | (31.05) |

NTS-PROPERTIES VI

| <u>2004</u> | <i>For the Quarters Ended</i> | | | |
|---|-------------------------------|----------------|---------------------|--------------------|
| | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
| Total revenues | \$ 1,418,210 | \$ 1,475,219 | \$ 1,487,321 | \$ 1,514,223 |
| Operating (loss) income | (165,309) | 45,448 | (138,256) | (237,387) |
| Minority interest | 5,416 | 8,193 | 8,675 | 13,277 |
| Discontinued operations, net | 141,944 | 183,912 | 150,306 | (486,731) |
| Loss from continuing operations allocated to limited partners | (664,691) | (447,669) | (633,281) | (209,470) |
| Discontinued operations, net allocated to limited partners | 140,525 | 182,073 | 148,803 | (481,865) |
| Loss from continuing operations per limited partnership unit | (17.09) | (11.51) | (16.28) | (5.39) |
| Discontinued operations, net per limited partnership unit | 3.61 | 4.68 | 3.83 | (12.39) |

NTS-PROPERTIES VII

| <u>2004</u> | <i>For the Quarters Ended</i> | | | |
|--|-------------------------------|----------------|---------------------|--------------------|
| | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
| Total revenues | \$ 385,305 | \$ 385,414 | \$ 408,219 | \$ 392,614 |
| Operating loss | (83,968) | (34,097) | (4,870) | (51,492) |
| Net loss allocated to the limited partners | (115,179) | (67,652) | (50,157) | (96,585) |
| Net loss per limited partnership unit | (0.21) | (0.12) | (0.09) | (0.18) |

NTS PRIVATE GROUP

| <u>2004</u> | <i>For the Quarters Ended</i> | | | |
|-------------------------|-------------------------------|----------------|---------------------|--------------------|
| | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
| Total revenues | \$ 2,305,856 | \$ 2,277,937 | \$ 2,305,774 | \$ 2,384,002 |
| Operating income | 854,754 | 882,775 | 946,252 | 1,028,543 |
| Net income (loss) | 144,515 | 234,225 | 293,741 | (2,831,540) |

BLANKENBAKER BUSINESS CENTER 1A

| <u>2004</u> | <i>For the Quarters Ended</i> | | | |
|------------------------|-------------------------------|----------------|---------------------|--------------------|
| | <u>March 31</u> | <u>June 30</u> | <u>September 30</u> | <u>December 31</u> |
| Total revenues | \$ 237,253 | \$ 237,253 | \$ 237,253 | \$ 237,252 |
| Operating income | 113,981 | 106,707 | 68,632 | 65,779 |
| Net income | 88,535 | 84,296 | 46,286 | 28,381 |

Note 12 - Real Estate Transactions

During the year ended December 31, 2005, we had a property acquisition summarized as follows:

| <i>Property</i> | <i>Our Ownership</i> | <i>Date</i> | <i>Purchase Price</i> |
|----------------------|----------------------|-----------------|-----------------------|
| The Lakes Apartments | 100% | August 26, 2005 | \$ 15,975,000 |

On August 26, 2005, we purchased The Lakes Apartments, located adjacent to Willow Lake Apartments, in Indianapolis, Indiana. The Lakes is a 230-unit luxury multifamily property which includes amenities such as a fitness center, car wash, swimming pool and lighted tennis court.

The acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations." The assets and liabilities purchased were recorded at their fair market value at the date of the acquisition. We allocated the purchase price for the property to net tangible and identified intangible assets acquired based on fair values (including land, buildings, tenant improvements, acquired above and below market leases and the origination cost of acquired in-place leases) and acquired liabilities. We recorded an intangible asset for the acquired in place leases of approximately \$151,000. This will be amortized over a period of one year, which approximates the weighted average lease lives. Amortization of approximately \$50,000 was included in our amortization expense for the year ended December 31, 2005. No above or below market leases exist. No customer relationship intangibles exist. At the date of the acquisition, the carrying value of mortgages and other liabilities approximated fair market value. We retained an independent appraiser to assess fair value based on estimated cash flow projections that utilize discount and capitalizations rates deemed appropriate and available market information.

On August 24, 2005, we closed on a \$20.0 million line of credit from PNC Bank, National Association. We used a portion of the proceeds from the line of credit to pay the purchase price for The Lakes Apartments, pending permanent financing. The line of credit was increased to \$24.0 million in March 2006.

On September 13, 2005, we announced that we entered into an agreement to sell the Sears Office Building, one of our office buildings located in Jefferson County, Kentucky, to an unaffiliated local nonprofit corporation for \$5.6 million. As a result of entering into this agreement, we presented the Sears Office Building separately as an asset held for sale on our balance sheets as of September 30, 2005 and December 31, 2004 and as discontinued operations in our statement of operations for the periods ended September 30, 2005 and 2004.

On September 30, 2005, we announced that we entered into separate agreements to sell Golf Brook Apartments and Sabal Park Apartments, our multifamily properties located in Orlando, Florida, to an unaffiliated Florida corporation. We agreed to receive an aggregate purchase price of approximately \$71.5 million for the properties at closing.

On November 1, 2005, we announced that we entered into two agreements to purchase two multifamily properties located in Nashville, Tennessee and one multifamily property located in Chesterfield County, Virginia from an unaffiliated Delaware limited partnership. Subject to the terms and conditions of the agreements, we agreed to pay approximately \$117.2 million for the properties. The properties in Nashville consist of apartment complexes with 292 units and 301 units, respectively, while the Chesterfield County property has 240 units.

On December 9, 2005, we announced that we were notified by the prospective purchaser of the Sears Office Building, one of our office buildings located in Jefferson County, Kentucky, that such purchaser was not able to fulfill its obligations under the purchase agreement it entered into with us and, thus, terminated the agreement. Due to the termination of this agreement, the Sears Office Building has been reclassified from assets held for sale on our balance sheet as of December 31, 2004 and reclassified to continuing operations in our statement of operations for the years ended December 31, 2005 and 2004.

We have presented separately as discontinued operations in all periods the results of operations for Golf Brook Apartments and Sabal Park Apartments. The assets and liabilities held for sale have been separately identified on our balance sheets at December 31, 2005 and 2004.

The components of discontinued operations are outlined below and include the results of operations for the respective periods in which we owned such assets during the years ended December 31, 2005, 2004 and 2003.

| | <i>Years Ended December 31,</i> | | |
|--|---------------------------------|--------------------|-------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| REVENUE: | | | |
| Rental income..... | \$ 5,390,459 | \$ 4,908,009 | \$ 4,896,865 |
| Tenant reimbursements..... | - | - | - |
| Total revenue | 5,390,459 | 4,908,009 | 4,896,865 |
| EXPENSES: | | | |
| Operating expenses and operating expenses reimbursed to affiliate..... | 2,273,722 | 2,051,333 | 1,902,242 |
| Management fees..... | 270,395 | 243,531 | 243,964 |
| Property taxes and insurance..... | 592,220 | 574,605 | 585,509 |
| Depreciation and amortization | 792,904 | 845,673 | 839,876 |
| Total operating expenses | 3,929,241 | 3,715,142 | 3,571,591 |
| DISCONTINUED OPERATING INCOME | 1,461,218 | 1,192,867 | 1,325,274 |
| Interest and other income..... | 4,742 | 4,367 | 6,413 |
| Interest expense..... | (678,667) | (1,198,385) | (402,411) |
| Loss on disposal of assets | (42,055) | (9,418) | (4,561) |
| DISCONTINUED OPERATIONS, NET | \$ 745,238 | \$ (10,569) | \$ 924,715 |

The components of long-lived assets held for sale consist primarily of land, buildings and amenities for the properties being sold. The components of long-lived liabilities held for sale include the accrued property tax liabilities and security deposit liabilities for the properties being sold.

Note 13 - Subsequent Events

On February 2, 2006, we closed on our agreements to sell Golf Brook Apartments and Sabal Park Apartments, our multifamily properties located in Orlando, Florida, to an unaffiliated Florida corporation for a purchase price of approximately \$71.5 million, resulting in a significant gain.

On February 3, 2006, we closed on our two agreements to purchase two multifamily properties located in Nashville, Tennessee and one agreement to purchase a multifamily property in Chesterfield County, Virginia for a purchase price totaling approximately \$117.2 million (a portion of which was satisfied by the assumption of a mortgage loan with a current outstanding balance of approximately \$33.4 million). The Tennessee properties are commonly known as The Grove at Richland and The Grove at Whitworth, while the Virginia property is commonly known as The Grove at Swift Creek.

On February 7, 2006, we announced that we entered into an agreement to purchase two multifamily properties located in Indianapolis, Indiana. These properties are commonly known as AMLI at Castle Creek and AMLI at Lake Clearwater. Castle Creek has 276 units and Lake Clearwater has 216 units. Subject to the terms and conditions of the agreement, we have agreed to pay a purchase price totaling approximately \$50.0 million.

On March 6, 2006, we announced that we entered into an agreement to sell Commonwealth Business Center Phases I and II, two of our business centers located in Jefferson County, Kentucky, to an unaffiliated Kentucky limited liability company for \$7.1 million.

On March 23, 2006, we closed on our agreement to purchase the two multifamily properties located in Indianapolis, Indiana, using a bank loan of approximately \$42.5 million, guaranteed by the partnership, and an advance on our line of credit for the balance.

ITEM 9 - CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

Our managing general partner established disclosure controls and procedures to ensure that our material information is made known to the officers of our managing general partner who certify our financial reports, to our management and to the board of directors of our managing partner.

As of December 31, 2005, our managing general partner's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

ITEM 9B - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than May 1, 2006.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than May 1, 2006.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than May 1, 2006.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than May 1, 2006.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated by reference to, and will be contained in, our definitive proxy statement, which we anticipate filing no later than May 1, 2006.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1 - Financial Statements

The financial statements along with the report from Ernst & Young LLP dated March 27, 2005, appear in Part II, Item 8. The following schedules should be read in conjunction with those financial statements.

2 - Financial Statement Schedules

Schedules

Schedule III-Real Estate and Accumulated Depreciation

Page No.
125-126

All other schedules have been omitted because they are not applicable, are not required, or because the required information is included in the financial statements or notes thereto.

3 - Exhibits

Exhibit No.

| | | |
|-------|---|-----|
| 2.01 | Agreement and Plan of Merger entered into by and among NTS Realty Holdings Limited Partnership, NTS-Properties III, NTS-Properties IV, NTS-Properties V, a Maryland limited partnership, NTS-Properties VI, a Maryland limited partnership and NTS-Properties VII, Ltd. | (1) |
| 2.02 | Contribution Agreement entered into by and among NTS Realty Holdings Limited Partnership and ORIG, LLC | (2) |
| 3.01 | Certificate of Limited Partnership of NTS Realty Holdings Limited Partnership | (4) |
| 3.02 | Form of Agreement of Limited Partnership of NTS Realty Holdings Limited Partnership | (3) |
| 3.03 | Certificate of Incorporation of NTS Realty Capital, Inc. | (4) |
| 3.04 | Bylaws of NTS Realty Capital, Inc. | (5) |
| 10.01 | Form of Management Agreement between NTS Realty Holdings Limited Partnership and NTS Development Company | (4) |
| 10.02 | Lease Agreement dated as of January 12, 2005, between NTS Realty Holdings Limited Partnership and SHPS, Inc. | (7) |
| 10.03 | Purchase and Sale Agreement between NTS Realty Holdings Limited Partnership and Investors Capital Mortgage Group, Inc., dated September 30, 2005 (Golf Brook Apartments) | (8) |
| 10.04 | Purchase and Sale Agreement between NTS Realty Holdings Limited Partnership and Investors Capital Mortgage Group, Inc., dated September 30, 2005 (Sabal Park Apartments) | (8) |
| 10.05 | Agreement for Purchase and Sale between Schaedle Worthington Hyde Properties, L.P. and NTS Realty Holdings Limited Partnership, dated November 1, 2005 (The Grove at Richland and The Grove at Whitworth) | (8) |
| 10.06 | Agreement for Purchase and Sale between Schaedle Worthington Hyde Properties, L.P. and NTS Realty Holdings Limited Partnership, dated November 1, 2005 (The Grove at Swift Creek) | (8) |
| 10.07 | Purchase and Sale Agreement between AMLI at Castle Creek, L.P. and AMLI Residential Properties, L.P. (together the Seller) and NTS Realty Holdings Limited Partnership, dated February 7, 2006 (Castle Creek and Lake Clearwater) | (8) |

Exhibit No.

| | | |
|-------|--|-----|
| 10.08 | Unconditional and Continuing Guarantee by NTS Realty Holdings Limited Partnership in favor of National City Bank dated March 23, 2006 | (8) |
| 14.01 | Code of Conduct and Ethics | (7) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended | (8) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended | (8) |
| 32.1 | Certification of Chief Executive Officer Pursuant to U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | (8) |
| 32.2 | Certification of Chief Financial Officer Pursuant to U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | (8) |
| 99.1 | Form of Lock-up Agreement between NTS Realty Holdings Limited Partnership and the executive officers of NTS Realty Capital, Inc. | (4) |
| 99.2 | Registration Statement on Form S-4, as filed by the Registrant with the Securities and Exchange Commission on October 27, 2004 | (6) |

| | |
|-----|--|
| (1) | Incorporated by reference to Appendix B to the Registrant's Registration Statement on Form S-4, as filed by the Registrant with the Securities and Exchange Commission on October 27, 2004 (file number 333-112467). |
| (2) | Incorporated by reference to Appendix C to the Registrant's Registration Statement on Form S-4, as filed by the Registrant with the Securities and Exchange Commission on October 27, 2004 (file number 333-112467). |
| (3) | Incorporated by reference to Appendix D to the Registrant's Registration Statement on Form S-4, as filed by the Registrant with the Securities and Exchange Commission on October 27, 2004 (file number 333-112467). |
| (4) | Incorporated by reference to the Registrant's Form S-4, as filed by the Registrant with the Securities and Exchange Commission on February 4, 2004. |
| (5) | Incorporated by reference to Amendment No. 1 to the Form S-4, as filed by the Registrant with the Securities and Exchange Commission on June 18, 2004. |
| (6) | Incorporated by reference to the Registrant's Registration Statement on Form S-4, as filed with the Securities and Exchange Commission on October 27, 2004 (file number 333-112467). |
| (7) | Incorporated by reference to the Registrant's annual report on Form 10-K for the year ended December 31, 2004, as filed by the Registrant with the Securities and Exchange Commission on March 31, 2005. |
| (8) | Filed herewith. |

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2005

| Property Description | Encumbrances | Initial Cost | | Cost Capitalized Subsequent to Acquisition | | Total Amounts at End of Period | | | Accumulated Depreciation (2) | Year Constructed | |
|---|----------------|---------------|----------------------------|--|----------------------------|--------------------------------|----------------------------|----------------|------------------------------|------------------|--|
| | | Land | Buildings and Improvements | Land | Buildings and Improvements | Land | Buildings and Improvements | Total (1) | | | |
| | | | | | | | | | | | |
| Commercial | | | | | | | | | | | |
| Anthem Office Center | \$ - | \$ 760,037 | \$ 3,339,521 | \$ - | \$ - | \$ 760,037 | \$ 3,339,521 | \$ 4,099,558 | \$ 126,465 | 1995 | |
| Atrium (3) | - | 1,032,711 | 1,839,129 | - | 228,067 | 1,032,711 | 2,067,196 | 3,099,907 | 219,314 | 1984 | |
| BBC I (3) | - | 1,894,684 | 3,698,920 | (1,791) | 2,416,521 | 1,892,893 | 6,115,441 | 8,008,334 | 224,764 | 1988 | |
| BBC II (3) | - | 543,639 | 2,025,969 | 7,045 | 715,051 | 550,684 | 2,741,020 | 3,291,704 | 163,415 | 1988 | |
| Clarke American (4) | 2,920,614 | 521,736 | 2,165,877 | - | - | 521,736 | 2,165,877 | 2,687,613 | 157,819 | 2000 | |
| CBC I | - | 981,827 | 1,964,935 | - | 303,803 | 981,827 | 2,268,738 | 3,250,565 | 149,412 | 1984 | |
| CBC II | - | 891,649 | 1,208,480 | - | 28,935 | 891,649 | 1,237,415 | 2,129,064 | 148,678 | 1985 | |
| Lakeshore I (5) | - | 2,128,882 | 3,661,323 | - | 197,297 | 2,128,882 | 3,858,620 | 5,987,502 | 375,761 | 1986 | |
| Lakeshore II (5) | - | 3,171,812 | 3,772,955 | 4,200 | 198,459 | 3,176,012 | 3,971,414 | 7,147,426 | 339,324 | 1989 | |
| Lakeshore III (5) | - | 1,264,136 | 3,252,297 | - | - | 1,264,136 | 3,252,297 | 4,516,433 | 216,429 | 2000 | |
| NTS Center | - | 1,074,010 | 2,977,364 | 1,029 | 27,761 | 1,075,039 | 3,005,125 | 4,080,164 | 208,147 | 1977 | |
| Peachtree | - | 1,417,444 | 3,459,185 | - | 102,538 | 1,417,444 | 3,561,723 | 4,979,167 | 464,729 | 1979 | |
| Plainview Center | - | 753,160 | 3,414,356 | - | 18,924 | 753,160 | 3,433,280 | 4,186,440 | 369,877 | 1983 | |
| Plainview Point I & II | - | 447,129 | 1,993,392 | - | 22,265 | 447,129 | 2,015,657 | 2,462,786 | 172,894 | 1983 | |
| Plainview Point III (6) | 2,815,322 | 681,927 | 2,139,793 | - | 125,877 | 681,927 | 2,265,670 | 2,947,597 | 180,349 | 1987 | |
| Sears | - | 925,539 | 1,390,215 | - | - | 925,539 | 1,390,215 | 2,315,754 | 51,721 | 1987 | |
| Springs Medical I (3) | - | 1,221,864 | 3,438,614 | - | 38,261 | 1,221,864 | 3,476,875 | 4,698,739 | 249,085 | 1988 | |
| Springs Office (3) | - | 2,667,040 | 5,660,709 | 2,400 | 504,509 | 2,669,440 | 6,165,218 | 8,834,658 | 397,285 | 1990 | |
| Multifamily | | | | | | | | | | | |
| Golf Brook (7) | - | 2,728,354 | 11,607,036 | - | 32,548 | 2,728,354 | 11,639,584 | 14,367,938 | 312,816 | 1989 | |
| Park Place (7) | - | 5,181,523 | 21,082,463 | - | 423,198 | 5,181,523 | 21,505,661 | 26,687,184 | 901,685 | 1987 | |
| Sabal Park (7) | - | 2,260,385 | 6,350,527 | 10,164 | 16,909 | 2,270,549 | 6,367,436 | 8,637,985 | 189,483 | 1987 | |
| The Lakes (8) | 12,100,000 | 2,636,790 | 13,187,093 | 4,200 | 134,396 | 2,640,990 | 13,321,489 | 15,962,479 | 314,796 | 1992 | |
| The Willows of Plainview (7) | - | 3,015,448 | 10,947,277 | 15,642 | 52,064 | 3,031,090 | 10,999,341 | 14,030,431 | 416,636 | 1985 | |
| Willow Lake (7) | - | 2,555,062 | 8,368,028 | - | 401,402 | 2,555,062 | 8,769,430 | 11,324,492 | 365,950 | 1985 | |
| Retail | | | | | | | | | | | |
| Bed, Bath & Beyond (9) | 2,720,522 | 734,860 | 2,290,252 | - | - | 734,860 | 2,290,252 | 3,025,112 | 95,351 | 1999 | |
| Outlets Mall | - | 1,008,618 | 2,763,070 | (115,064) | 110,823 | 893,554 | 2,873,893 | 3,767,447 | 91,814 | 1983 | |
| Springs Station (3) | - | 427,465 | 978,891 | - | 1,297 | 427,465 | 980,188 | 1,407,653 | 59,187 | 2001 | |
| Land | | | | | | | | | | | |
| ITT Parking Lot | - | 161,529 | - | - | - | 161,529 | - | 161,529 | 2,607 | N/A | |
| Nonsegment | | | | | | | | | | | |
| NTS Realty Holdings Limited Partnership (3) (5) (7) | 117,456,374 | - | - | - | - | - | - | - | - | N/A | |
| | \$ 138,012,832 | \$ 43,089,260 | \$ 128,977,671 | \$ (72,175) | \$ 6,100,905 | \$ 43,017,085 | \$ 135,078,576 | \$ 178,095,661 | \$ 6,965,793 | | |

- (1) Aggregate cost of real estate for tax purposes is approximately \$128,845,282.
- (2) Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 5-30 years for land improvements, 7-30 years for buildings and improvements and 5-30 years for amenities. Tenant improvements are generally depreciated over the life of the respective tenant lease.
- (3) \$29,543,996 mortgage held by an insurance company secured by Atrium Center, Blankenbaker Business Center I, Blankenbaker Business Center II, Springs Medical I, Springs Office and Springs Station.
- (4) Mortgage held by an insurance company secured by certain land and a building.
- (5) \$13,758,000 mortgage held by a bank secured by Lakeshore Business Center Phases I, II and III.
- (6) Mortgage held by a bank secured by certain land and a building.
- (7) \$74,154,709 mortgage held by an insurance company secured by Golf Brook, Sabal Park, Willow Lake, The Willows of Plainview and Park Place Apartments.
- (8) Mortgage held by FHLMC secured by certain land, buildings and amenities.
- (9) Mortgage held by an insurance company secured by certain land, buildings and amenities.

NTS REALTY HOLDINGS LIMITED PARTNERSHIP
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | <u>Real Estate</u> | <u>Accumulated Depreciation</u> |
|------------------------------------|------------------------|-------------------------------------|
| Balances on January 15, 2004..... | \$ - | \$ - |
| Merger acquisitions: | | |
| Land | 40,452,470 | - |
| Buildings and amenities | <u>115,790,578</u> | <u>-</u> |
| Balances on December 31, 2004..... | 156,243,048 | - |
| Additions during period: | | |
| Acquisitions..... | 15,823,882 | - |
| Improvements..... | 6,841,280 | - |
| Depreciation (1)..... | - | 7,001,205 |
| Deductions during period: | | |
| Retirements..... | <u>(812,549)</u> | <u>(35,412)</u> |
| Balances on December 31, 2005..... | \$ <u>178,095,661</u> | \$ <u>6,965,793</u> |

- (1) The additions charged to accumulated depreciation on this schedule will differ from the depreciation and amortization on the Statements of Cash Flows due to the amortization of loan costs and capitalized leasing costs.

SIGNATURES

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

NTS REALTY HOLDINGS LIMITED PARTNERSHIP

By: NTS REALTY CAPITAL, INC.

Its: Managing General Partner

By: /s/ Brian F. Lavin

Brian F. Lavin

Its: President and Chief Executive Officer

Date: March 31, 2006

By: /s/ Gregory A. Wells

Gregory A. Wells

Its: Chief Financial Officer

Date: March 31, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant in their capacities and on the date indicated above.

By: /s/ J.D. Nichols

J.D. Nichols

Its: Chairman of the Board

Date: March 31, 2006

By: /s/ Brian F. Lavin

Brian F. Lavin

Its: Director

Date: March 31, 2006

By: /s/ Mark D. Anderson

Mark D. Anderson

Its: Director

Date: March 31, 2006

By: /s/ John Daly

John Daly

Its: Director

Date: March 31, 2006

By: /s/ John S. Lenihan

John S. Lenihan

Its: Director

Date: March 31, 2006

CERTIFICATION

I, Brian F. Lavin, certify that:

1. I have reviewed this annual report on Form 10-K of NTS Realty Holdings Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the board of directors of the registrant:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 31, 2006

/s/ Brian F. Lavin

President and Chief Executive Officer of
NTS Realty Capital, Inc., the Managing General Partner of
NTS Realty Holdings Limited Partnership

CERTIFICATION

I, Gregory A. Wells, certify that:

1. I have reviewed this annual report on Form 10-K of NTS Realty Holdings Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the board of directors of the registrant:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 31, 2006

/s/ Gregory A. Wells

Chief Financial Officer of
NTS Realty Capital, Inc., the Managing General Partner of
NTS Realty Holdings Limited Partnership

CERTIFICATION

I, Brian F. Lavin, President and Chief Executive Officer of NTS Realty Capital, Inc., the managing general partner of NTS Realty Holdings Limited Partnership (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2006

/s/ Brian F. Lavin

President and Chief Executive Officer of
NTS Realty Capital, Inc., the Managing General Partner of
NTS Realty Holdings Limited Partnership

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION

I, Gregory A. Wells, Chief Financial Officer of NTS Realty Capital, Inc., the managing general partner of NTS Realty Holdings Limited Partnership (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2005 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2006

/s/ Gregory A. Wells
Chief Financial Officer of
NTS Realty Capital, Inc., the Managing General Partner of
NTS Realty Holdings Limited Partnership

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.