

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2004

OR

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

Commission File Number 0-13400

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP**  
*(Exact name of registrant as specified in its charter)*

Maryland  
*(State or other jurisdiction of  
incorporation or organization)*

61-1051452  
*(I.R.S. Employer Identification No.)*

10172 Linn Station Road, Louisville, Kentucky 40223  
*(Address of principal executive offices)*

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

*(Former name, former address and former fiscal year, if changed since last report)*

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

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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Some of the statements included in this quarterly report on Form 10-Q, particularly those included in Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), may be considered "forward-looking statements" because the statements relate to matters which have not yet occurred. For example, phrases such as "we anticipate," "believe" or "expect" indicate that it is possible that the event anticipated, believed or expected may not occur. If these events do not occur, the result which we expected also may, or may not, occur in a different manner, which may be more or less favorable to us. We do not undertake any obligation to update these forward-looking statements.

Any forward-looking statements included in MD&A, or elsewhere in this report, reflect our general partner's best judgment based on known factors, but involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of a number of factors, including but not limited to those described in our filings with the Securities and Exchange Commission, particularly our annual report on Form 10-K for the year ended December 31, 2003. Any forward-looking information provided by us pursuant to the safe harbor established by the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

**PART I - FINANCIAL INFORMATION**  
**Item 1 - Consolidated Financial Statements**

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP  
CONSOLIDATED BALANCE SHEETS**

	As of September 30, 2004 (UNAUDITED)	As of December 31, 2003
<b>ASSETS</b>		
Cash and equivalents	\$ 299,273	\$ 191,321
Cash and equivalents - restricted	755,976	363,643
Accounts receivable, net	661,730	576,113
Land, buildings and amenities, net	19,691,909	20,360,408
Other assets	<u>764,140</u>	<u>893,961</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>22,173,028</u></b>	<b>\$ <u>22,385,446</u></b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Mortgages payable	\$ 13,337,353	\$ 13,614,792
Accounts payable and accrued expenses	926,264	725,261
Accounts payable - affiliate	709,112	294,771
Security deposits	240,595	210,252
Other liabilities	<u>633,796</u>	<u>192,601</u>
<b>TOTAL LIABILITIES</b>	<b>15,847,120</b>	<b>15,037,677</b>
<b>MINORITY INTEREST</b>	<b>968,517</b>	<b>1,015,947</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>PARTNERS' EQUITY</b>	<b><u>5,357,391</u></b>	<b><u>6,331,822</u></b>
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>	<b>\$ <u>22,173,028</u></b>	<b>\$ <u>22,385,446</u></b>

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENT OF PARTNERS' EQUITY  
(UNAUDITED)**

	Limited Partners	General Partner	Total
<b>PARTNERS' EQUITY/(DEFICIT)</b>			
Capital contributions, net of offering costs	\$ 30,582,037	\$ 100	\$ 30,582,137
Net (loss) income - prior years	(6,453,939)	48,606	(6,405,333)
Net loss - current year	(964,687)	(9,744)	(974,431)
Cash distributions declared to date	(16,641,480)	(168,177)	(16,809,657)
Repurchase of limited partnership interests	<u>(1,035,325)</u>	<u>--</u>	<u>(1,035,325)</u>
<b>BALANCES ON SEPTEMBER 30, 2004</b>	<b>\$ <u>5,486,606</u></b>	<b>\$ <u>(129,215)</u></b>	<b>\$ <u>5,357,391</u></b>

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

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<b><u>REVENUES</u></b>				
Rental income	\$ 971,085	\$ 972,431	\$ 2,897,850	\$ 2,988,568
Tenant reimbursements	<u>286,827</u>	<u>259,836</u>	<u>854,953</u>	<u>842,115</u>
<b>TOTAL REVENUES</b>	<b><u>1,257,912</u></b>	<b><u>1,232,267</u></b>	<b><u>3,752,803</u></b>	<b><u>3,830,683</u></b>
<b><u>EXPENSES</u></b>				
Operating expenses	432,967	356,111	1,172,015	1,062,354
Operating expenses - affiliated	153,333	127,541	467,984	421,112
Management fees	67,696	66,852	205,273	216,111
Real estate taxes	203,278	127,014	466,924	394,668
Professional and administrative expenses	161,239	132,515	604,832	504,975
Professional and administrative expenses - affiliated	57,950	43,145	160,445	139,868
Depreciation and amortization	<u>324,012</u>	<u>308,569</u>	<u>970,532</u>	<u>929,563</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>1,400,475</u></b>	<b><u>1,161,747</u></b>	<b><u>4,048,005</u></b>	<b><u>3,668,651</u></b>
<b>OPERATING (LOSS) INCOME</b>	<b>(142,563)</b>	<b>70,520</b>	<b>(295,202)</b>	<b>162,032</b>
Interest and other income	4,906	1,952	17,161	4,778
Interest expense	(239,838)	(238,760)	(729,062)	(733,053)
Loss on disposal of assets	<u>(920)</u>	<u>(1,430)</u>	<u>(5,095)</u>	<u>(1,430)</u>
Loss before minority interest	(378,415)	(167,718)	(1,012,198)	(567,673)
Minority interest loss	<u>(28,098)</u>	<u>(4,925)</u>	<u>(37,767)</u>	<u>(283)</u>
<b>Net loss</b>	<b>\$ <u>(350,317)</u></b>	<b>\$ <u>(162,793)</u></b>	<b>\$ <u>(974,431)</u></b>	<b>\$ <u>(567,390)</u></b>
<b>Net loss allocated to the limited partners</b>	<b>\$ <u>(346,814)</u></b>	<b>\$ <u>(161,165)</u></b>	<b>\$ <u>(964,687)</u></b>	<b>\$ <u>(561,716)</u></b>
<b>Net loss per limited partnership interest</b>	<b>\$ <u>(11.36)</u></b>	<b>\$ <u>(5.28)</u></b>	<b>\$ <u>(31.61)</u></b>	<b>\$ <u>(18.40)</u></b>
Weighted average number of limited partnership interests	<u>30,521</u>	<u>30,521</u>	<u>30,521</u>	<u>30,521</u>

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

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)**

	Nine Months Ended September 30,	
	2004	2003
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net loss	\$ (974,431)	\$ (567,390)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	64,929	8,882
Write-off of uncollectible accounts receivable	(4,994)	(8,753)
Loss on disposal of assets	5,095	1,430
Depreciation and amortization	1,137,542	1,089,584
Minority interest loss	(37,767)	(283)
Changes in assets and liabilities:		
Cash and equivalents - restricted	(392,333)	(496,135)
Accounts receivable	(145,552)	(100,925)
Other assets	(34,073)	(311,844)
Accounts payable and accrued expenses	615,344	879,567
Security deposits	30,343	48,205
Other liabilities	441,195	419,766
Net cash provided by operating activities	<u>705,298</u>	<u>962,104</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Additions to land, buildings and amenities	(307,128)	(728,996)
Minority interest	<u>(9,663)</u>	<u>(2,614)</u>
Net cash used in investing activities	<u>(316,791)</u>	<u>(731,610)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Proceeds from mortgages payable	279,969	465,714
Principal payments on mortgages payable	(557,408)	(643,538)
Additions to loan costs	<u>(3,116)</u>	<u>(29,564)</u>
Net cash used in financing activities	<u>(280,555)</u>	<u>(207,388)</u>
Net increase in cash and equivalents	107,952	23,106
CASH AND EQUIVALENTS, beginning of period	<u>191,321</u>	<u>235,801</u>
CASH AND EQUIVALENTS, end of period	<u>\$ 299,273</u>	<u>\$ 258,907</u>
Interest paid on a cash basis	<u>\$ 687,325</u>	<u>\$ 693,476</u>

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

**NTS-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

The unaudited consolidated financial statements included herein should be read in conjunction with NTS-Properties V's 2003 annual report on Form 10-K as filed with the Securities and Exchange Commission on March 29, 2004. In the opinion of our general partner, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation have been made to the accompanying consolidated financial statements for the three and nine months ended September 30, 2004 and 2003. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. As used in this quarterly report on Form 10-Q the terms "we," "us" or "our," as the context requires, may refer to NTS-Properties V or its interests in its properties and joint ventures.

**Note 1 - Consolidation Policy**

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

***Minority Interest***

In May 2003, the Financial Accounting Standards Board ("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.

We consolidate certain properties that are 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 September 30, 2004, the estimated settlement value of these noncontrolling interests is approximately \$3,470,000. 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 mortgage encumbering each property been prepaid on September 30, 2004. Due to the inherent risks and uncertainties related to the operations and sale of real estate assets, among other things, the amount of any potential distribution to the noncontrolling interests is likely to change.

## **Note 2 - Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management 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.

## **Note 3 - Concentration of Credit Risk**

We own and operate or have a joint venture investment in one commercial property - Commonwealth Business Center Phase II, in Louisville, Kentucky and three commercial properties - Lakeshore Business Center Phases I, II and III, in Ft. Lauderdale, Florida. We also have a joint venture investment in an apartment community - The Willows of Plainview Phase II, in Louisville, Kentucky.

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. 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 4 - Cash and Equivalents**

Cash and equivalents include cash on hand and short-term, highly liquid investments 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 repurchase agreement for U.S. government or agency securities each night. As of September 30, 2004, approximately \$121,000 of our overnight investment was included in cash and equivalents.

## **Note 5 - Cash and Equivalents - Restricted**

Cash and equivalents - restricted represents funds received for residential security deposits and funds which have been escrowed with mortgage companies for property taxes and capital improvements in accordance with the loan agreements with said mortgage companies.

## **Note 6 - Basis of Property and Depreciation**

Land, buildings and amenities are stated at historical cost, less accumulated depreciation. 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, 3-30 years for buildings and improvements, 3-30 years for amenities and the applicable lease term for tenant improvements. The aggregate cost of our properties for federal tax purposes is approximately \$42,054,000.



Statement of Financial Accounting Standards 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. There were no impairment losses during any of the periods presented.

## Note 7 - Mortgages Payable

Mortgages payable consist of the following:

	September 30, 2004	December 31, 2003
Mortgage payable to an insurance company in monthly installments, bearing interest at a fixed rate of 8.125%, due August 1, 2008, secured by land and a building.	\$ 3,183,529	\$ 3,356,890
Mortgage payable to an insurance company in monthly installments, bearing interest at a fixed rate of 8.125%, due August 1, 2008, secured by land and buildings.	2,958,964	3,120,096
Mortgage payable to a bank on demand with interest payable in monthly installments, at a variable rate based on LIBOR daily rate plus 2.5%, currently 3.615%, due October 1, 2005, secured by land and a building.	2,912,356	2,632,387
Mortgage payable to an insurance company in monthly installments, bearing interest at a fixed rate of 7.2%, due January 5, 2013, secured by land, buildings and amenities.	2,180,321	2,319,883
Mortgage payable to an insurance company in monthly installments, bearing interest at a fixed rate of 7.2%, due January 5, 2013, secured by land, buildings and amenities.	1,302,183	1,385,536
Mortgage payable to a bank on demand with interest payable in monthly installments, at a variable rate based on LIBOR one-month rate plus 2.75%, currently 4.400%, due February 1, 2005, secured by land and a building.	800,000	800,000
	<u>\$ 13,337,353</u>	<u>\$ 13,614,792</u>

On October 18, 2004, the escrow balances of \$180,735 at Lakeshore Business Center Phase I and \$185,252 at Lakeshore Business Center Phase II were applied to the outstanding principal balances on the respective mortgages. This transaction does not change any terms of the existing mortgages.

Our mortgages may be prepaid but are generally subject to a yield-maintenance premium. As of September 30, 2004, the fair value of long-term debt is approximately \$13,817,000, based on the borrowing rates currently available to us for mortgages with similar terms and average maturities.

## Note 8 - Accounts Payable - Affiliate

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

NTS Development Company has agreed to defer, until March 31, 2005, amounts owed to them by us as of December 31, 2003 and those amounts accruing from January 1, 2004 through March 31, 2005, other than as permitted by our cash flows. There can be no assurances that NTS Development Company will continue to defer amounts due them past March 31, 2005.

## Note 9 - Related Party Transactions

Pursuant to an agreement with us, NTS Development Company, an affiliate of our General Partner, receives property management fees on a monthly basis. The monthly fees are equal to 5% of the gross receipts from our apartment community and 6% of the gross receipts from our commercial properties. Also pursuant to an agreement, NTS Development Company receives a repair and maintenance fee equal to 5.9% of costs incurred which relates to capital improvements and major repair and renovation projects. These repair and maintenance fees are capitalized as part of land, buildings and amenities.

We were charged the following amounts from NTS Development Company for the nine months ended September 30, 2004 and 2003. These charges include items which have been expensed as operating expenses - affiliated or professional and administrative expenses - affiliated and items which have been capitalized as other assets or as land, buildings and amenities.

	Nine Months Ended September 30,	
	2004	2003
Property management fees	\$ 205,273	\$ 216,111
Property management	332,352	285,501
Leasing	32,810	55,590
Administrative - operating	96,834	79,490
Other	5,988	531
Total operating expenses - affiliated	467,984	421,112
Professional and administrative expenses - affiliated	160,445	139,868
Repair and maintenance fees	12,262	5,132
Leasing commissions	567	1,020
Total related party transactions capitalized	12,829	6,152
Total related party transactions	\$ 846,531	\$ 783,243

## Note 10 - Commitments and Contingencies

As an owner of real estate, we 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 or 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 December 12, 2001, three individuals filed an action in the Superior Court of the State of California for the County of Contra Costa (the “Superior Court”) originally captioned *Buchanan, et al. v. NTS-Properties Associates, et al.* (Case No. C 01-05090) against the general partners (the “General Partners”) of NTS-Properties III, NTS-Properties IV, NTS-Properties V, NTS-Properties VI and NTS-Properties VII, Ltd. (the “Partnerships”), as well as several individuals and entities affiliated with us. The action purported to bring claims on behalf of a class of limited partners. These claims were based on, among other things, tender offers made by the Partnerships and an affiliate of the General Partners, as well as the operation of the Partnerships by the General Partners. The plaintiffs alleged, among other things, that the prices at which limited partnership interests were purchased in these tender offers were too low. The plaintiffs sought monetary damages and equitable relief, including an order directing the disposition of the properties owned by the Partnerships and the distribution of the proceeds. No amounts have been accrued for the settlement of this action in our financial statements.

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) against certain of the 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., which is no longer in existence. In the amended complaint, the plaintiffs purport to bring claims on behalf of a class of limited partners and derivatively on behalf of us and the Partnerships based on alleged overpayment of fees, prohibited investments, improper failures to make distributions, purchases of limited partnerships interests at insufficient prices and other violations of the limited partnership agreements. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, the appointment of a receiver or liquidating trustee, the entry of an order of dissolution against the Partnerships, a declaratory judgment and injunctive relief. No amounts have been accrued for the settlement of this action in our financial statements. Our general partner and legal counsel believe that this action is without merit and are vigorously defending it.

On June 20, 2003, the General Partners reached an agreement in principle with the representatives of the class of plaintiffs to settle the *Buchanan* litigation. This agreed upon settlement includes releases for all of the parties for all of the claims asserted in the *Buchanan* litigation and the *Bohm* litigation. As part of the agreed upon settlement, the General Partners agreed to pursue a merger of

the Partnerships and other real estate entities affiliated with the General Partners into a newly-formed entity named NTS Realty Holdings Limited Partnership (“NTS Realty”). NTS Development Company agreed to pay the Partnerships \$1,500,000 on the closing date of the merger. We expect to receive \$345,000 of this payment.

On December 5, 2003, the General Partners, certain of their affiliates and the class of plaintiffs in the *Buchanan* litigation jointly filed a Stipulation and Agreement of Settlement (the “Settlement Agreement”) with the Superior Court. The Settlement Agreement sets forth the terms of the agreed upon settlement the parties reached on June 20, 2003. On February 26, 2004, the Superior Court preliminarily approved the Settlement Agreement as within the range of reasonableness and that it is fair, just and adequate to the class of plaintiffs. The Superior Court scheduled a hearing to finally determine whether the Settlement Agreement is in the best interests of the class of plaintiffs and whether the *Buchanan* litigation should be dismissed with prejudice.

On March 2, 2004, we, along with all defendants, filed a Motion to Dismiss the *Bohm* litigation. After the Motion to Dismiss was fully briefed, the settlement agreement in the *Buchanan* litigation received final court approval. The Circuit Court of Jefferson County, Kentucky, instructed the plaintiffs in the *Bohm* litigation to file an amended complaint in light of the approved settlement of the *Buchanan* litigation. The plaintiffs in the *Bohm* litigation filed a corrected Second Amended Complaint on August 11, 2004. We, along with all defendants, filed a Motion to Strike the corrected Second Amended Complaint. A hearing on this motion is scheduled for January 14, 2005. Our general partner believes that the claims asserted in the corrected Second Amended Complaint have no merit.

On May 6, 2004, the Superior Court granted its final approval of the Settlement Agreement. At the final hearing, any member of the class of plaintiffs was given the opportunity to object to the final approval of the Settlement Agreement, the entry of a final judgment dismissing with prejudice the *Buchanan* litigation, or an application of an award for attorneys’ fees and expenses to plaintiffs’ counsel. The Superior Court’s order provides, among other things, that: (1) the Settlement Agreement, and all transactions contemplated thereby, including the proposed merger of the Partnerships into NTS Realty, are 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; (3) each class member is barred from transferring, selling or otherwise disposing of (other than by operation of law) their interests until the earlier of the closing date of the merger, the termination of the settlement or June 30, 2004; and (4) each class member who requested to be excluded from the settlement released their claims in the *Bohm* litigation.

On June 11, 2004, Joseph Bohm and David Duval, class members who objected to the Settlement Agreement but were overruled by the Superior Court, filed an appeal in the Court of Appeals of the State of California, first Appellate District. Our general partner believes that this appeal has no merit and intends to defend it and the decision of the Superior Court.

Under an indemnification agreement with our general partner, we are responsible for the costs of defending any litigation. For the nine months ended September 30, 2004 and 2003, our share of the legal costs for the *Buchanan* and *Bohm* litigations was approximately \$174,000 and \$217,000, respectively, which was included in our professional and administrative expenses.

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, except as discussed herein.

### ***Proposed Merger***

As part of the Settlement Agreement, our general partner and the general partners of the four public partnerships affiliated with us, have agreed to pursue a merger of the partnerships and several other affiliated real estate entities into NTS Realty. The merger is subject to, among other things, approval by a majority of the limited partner interests in each partnership. For the nine months ended September 30, 2004 and 2003, our share of the legal and professional fees for the proposed merger was approximately \$367,000 and \$87,000, respectively, which was included in our professional and administrative expenses.

On February 4, 2004, NTS Realty filed a joint consent solicitation statement/prospectus on Form S-4 with the Securities and Exchange Commission. The solicitation statement/prospectus presents the merger of the Partnerships with NTS Realty. Concurrent with the merger, ORIG, LLC, a Kentucky limited liability company, which is affiliated with our general partner, will contribute substantially all its real estate assets and all of its liabilities to NTS Realty. NTS Realty filed Amendment No. 1 on June 18, 2004, Amendment No. 2 on August 13, 2004 and Amendment No. 3 on September 30, 2004.

On October 25, 2004 and October 27, 2004, NTS Realty filed Amendment No. 4 and Amendment No. 5, respectively, to its registration statement on Form S-4, which includes a joint consent solicitation statement/prospectus, with the Securities and Exchange Commission to seek approval of the merger of the Partnerships into NTS Realty. The general partners of the Partnerships agreed to pursue a merger of the Partnerships in the Stipulation and Agreement of Settlement that was jointly filed by the general partners, 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).

On October 27, 2004, the Securities and Exchange Commission signed an order declaring NTS Realty's registration statement to be effective and the Partnerships began mailing the joint consent solicitation statement/prospectus to their respective limited partners.

## Note 11 - Segment Reporting

Our reportable operating segments are Residential and Commercial Real Estate Operations. The residential operations represent our ownership and operating results relative to the apartment complex known as The Willows of Plainview Phase II. The commercial real estate operations represent 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 has been prepared using a management approach, which is consistent with the basis and manner in which our management internally reports financial information for the purposes of assisting in making internal operating decisions. Our management evaluated performance based on stand-alone operating segment net income.

Professional and administrative expenses, interest and other income, depreciation, interest expense and minority interest income (loss) recorded at the Partnership level have not been allocated to the segments.

	Three Months Ended September 30, 2004		
	Residential	Commercial	Total
Rental income	\$ 267,645	\$ 703,440	\$ 971,085
Tenant reimbursements	--	286,827	286,827
Total revenues	267,645	990,267	1,257,912
Operating expenses and operating expenses - affiliated	135,479	450,821	586,300
Management fees	13,208	54,488	67,696
Real estate taxes	14,490	188,788	203,278
Depreciation and amortization	57,248	263,306	320,554
Total operating expenses	220,425	957,403	1,177,828
Operating income	47,220	32,864	80,084
Interest and other income	27	4,625	4,652
Interest expense	(63,614)	(171,133)	(234,747)
Loss on disposal of assets	(920)	--	(920)
Net loss	<u>\$ (17,287)</u>	<u>\$ (133,644)</u>	<u>\$ (150,931)</u>

	Three Months Ended September 30, 2003		
	Residential	Commercial	Total
Rental income	\$ 306,070	\$ 666,361	\$ 972,431
Tenant reimbursements	--	259,836	259,836
Total revenues	306,070	926,197	1,232,267
Operating expenses and operating expenses - affiliated	124,305	359,347	483,652
Management fees	15,003	51,849	66,852
Real estate taxes	9,966	117,048	127,014
Depreciation and amortization	56,966	246,949	303,915
Total operating expenses	206,240	775,193	981,433
Operating income	99,830	151,004	250,834
Interest and other income	496	745	1,241
Interest expense	(68,885)	(164,784)	(233,669)
Loss on disposal of assets	--	(1,430)	(1,430)
Net income (loss)	\$ <u>31,441</u>	\$ <u>(14,465)</u>	\$ <u>16,976</u>

	Nine Months Ended September 30, 2004		
	Residential	Commercial	Total
Rental income	\$ 845,253	\$ 2,052,597	\$ 2,897,850
Tenant reimbursements	--	854,953	854,953
Total revenues	845,253	2,907,550	3,752,803
Operating expenses and operating expenses - affiliated	436,702	1,203,297	1,639,999
Management fees	43,317	161,956	205,273
Real estate taxes	43,470	423,454	466,924
Depreciation and amortization	170,743	787,021	957,764
Total operating expenses	694,232	2,575,728	3,269,960
Operating income	151,021	331,822	482,843
Interest and other income	604	15,254	15,858
Interest expense	(194,877)	(518,913)	(713,790)
Loss of disposal of assets	(5,095)	--	(5,095)
Net loss	\$ <u>(48,347)</u>	\$ <u>(171,837)</u>	\$ <u>(220,184)</u>

	Nine Months Ended September 30, 2003		
	Residential	Commercial	Total
Rental income	\$ 925,962	\$ 2,062,606	\$ 2,988,568
Tenant reimbursements	--	842,115	842,115
Total revenues	925,962	2,904,721	3,830,683
Operating expenses and operating expenses - affiliated	372,287	1,111,179	1,483,466
Management fees	47,407	168,704	216,111
Real estate taxes	43,524	351,144	394,668
Depreciation and amortization	171,356	744,243	915,599
Total operating expenses	634,574	2,375,270	3,009,844
Operating income	291,388	529,451	820,839
Interest and other income	734	3,189	3,923
Interest expense	(210,484)	(507,297)	(717,781)
Loss on disposal of assets	--	(1,430)	(1,430)
Net income	\$ <u>81,638</u>	\$ <u>23,913</u>	\$ <u>105,551</u>



A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the three and nine months ended September 30, 2004 and 2003, is necessary given amounts recorded at the Partnership level and not allocated to the operating properties for internal reporting purposes.

	Three Months Ended September 30,	
	2004	2003
<u>DEPRECIATION AND AMORTIZATION</u>		
Total depreciation and amortization for reportable segments	\$ 320,554	\$ 303,915
Depreciation and amortization for Partnership	<u>3,458</u>	<u>4,654</u>
Total depreciation and amortization	<u>\$ 324,012</u>	<u>\$ 308,569</u>
<u>INTEREST AND OTHER INCOME</u>		
Total interest and other income for reportable segments	\$ 4,652	\$ 1,241
Interest and other income for Partnership	<u>254</u>	<u>711</u>
Total interest and other income	<u>\$ 4,906</u>	<u>\$ 1,952</u>
<u>INTEREST EXPENSE</u>		
Total interest expense for reportable segments	\$ (234,747)	\$ (233,669)
Interest expense for Partnership	<u>(5,091)</u>	<u>(5,091)</u>
Total interest expense	<u>\$ (239,838)</u>	<u>\$ (238,760)</u>
<u>NET LOSS</u>		
Total net (loss) income for reportable segments	\$ (150,931)	\$ 16,976
Net loss for Partnership (1)	(227,484)	(184,694)
Minority interest loss	<u>(28,098)</u>	<u>(4,925)</u>
Total net loss	<u>\$ (350,317)</u>	<u>\$ (162,793)</u>

- (1) The Partnership net loss is 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 include the tax and public company reporting and compliance costs associated with a public limited partnership.

	Nine Months Ended September 30,	
	2004	2003
<u>DEPRECIATION AND AMORTIZATION</u>		
Total depreciation and amortization for reportable segments	\$ 957,764	\$ 915,599
Depreciation and amortization for Partnership	<u>12,768</u>	<u>13,964</u>
Total depreciation and amortization	<u>\$ 970,532</u>	<u>\$ 929,563</u>
<u>INTEREST AND OTHER INCOME</u>		
Total interest and other income for reportable segments	\$ 15,858	\$ 3,923
Interest and other income for Partnership	<u>1,303</u>	<u>855</u>
Total interest and other income	<u>\$ 17,161</u>	<u>\$ 4,778</u>
<u>INTEREST EXPENSE</u>		
Total interest expense for reportable segments	\$ (713,790)	\$ (717,781)
Interest expense for Partnership	<u>(15,272)</u>	<u>(15,272)</u>
Total interest expense	<u>\$ (729,062)</u>	<u>\$ (733,053)</u>
<u>NET LOSS</u>		
Total net (loss) income for reportable segments	\$ (220,184)	\$ 105,551
Net loss for Partnership (1)	(792,014)	(673,224)
Minority interest loss	<u>(37,767)</u>	<u>(283)</u>
Total net loss	<u>\$ (974,431)</u>	<u>\$ (567,390)</u>

- (1) The Partnership net loss is 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 include the tax and public company reporting and compliance costs associated with a public limited partnership.

## **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements in Item 1 and the cautionary statements below.

### **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 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.

### ***Recognition of Rental Income***

Our apartment community has operating leases with apartment residents with terms generally of 12 months or less. We recognize rental revenue related to these leases on an accrual basis when due from residents. In accordance with our standard lease terms, rental payments are generally due on a monthly basis.

Our commercial property leases are accounted for as operating leases. We accrue minimum rents on a straight-line basis over the terms of their respective leases. We structure our leases to allow us to recover a significant portion of our property operating expenses, real estate taxes 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 were not material in any period presented.

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," rental income exceeded the cash collected for rent by approximately \$136,000 and \$78,000, for the nine months ended September 30, 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 for tenants with potentially uncollectible outstanding balances due for a period less than ninety days.

### ***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 3-30 years, land improvements have estimated useful lives between 5-30 years and amenities have estimated useful lives between 3-30 years.

### ***Minority Interest***

In May 2003, the Financial Accounting Standards Board (“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.

We consolidate certain properties that are 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 September 30, 2004, the estimated settlement value of these noncontrolling interests is approximately \$3,470,000. 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 each property been prepaid on September 30, 2004. Due to the inherent risks and uncertainties related to the operations and sale of real estate assets, among other things, the amount of any potential distribution to the noncontrolling interests is likely to change.

## Results of Operations

The following tables include our selected summarized operating data for the three and nine months ended September 30, 2004 and 2003. This data is presented to provide assistance in identifying trends in our operating results and other factors affecting our business. This data should be read in conjunction with our consolidated financial statements, including the notes thereto, in Part I, Item 1 of this report.

	Three Months Ended September 30, 2004			
	Residential	Commercial	Partnership	Total
Net revenues	\$ 267,645	\$ 990,267	\$ --	\$ 1,257,912
Operating expenses and operating expenses - affiliated	135,479	450,821	--	586,300
Depreciation and amortization	57,248	263,306	3,458	324,012
Interest expense	(63,614)	(171,133)	(5,091)	(239,838)
Net loss	(17,287)	(133,644)	(199,386)	(350,317)

	Three Months Ended September 30, 2003			
	Residential	Commercial	Partnership	Total
Net revenues	\$ 306,070	\$ 926,197	\$ --	\$ 1,232,267
Operating expenses and operating expenses - affiliated	124,305	359,347	--	483,652
Depreciation and amortization	56,966	246,949	4,654	308,569
Interest expense	(68,885)	(164,784)	(5,091)	(238,760)
Net income (loss)	31,441	(14,465)	(179,769)	(162,793)

	Nine Months Ended September 30, 2004			
	Residential	Commercial	Partnership	Total
Net revenues	\$ 845,253	\$ 2,907,550	\$ --	\$ 3,752,803
Operating expenses and operating expenses - affiliated	436,702	1,203,297	--	1,639,999
Depreciation and amortization	170,743	787,021	12,768	970,532
Interest expense	(194,877)	(518,913)	(15,272)	(729,062)
Net loss	(48,347)	(171,837)	(754,247)	(974,431)

	Nine Months Ended September 30, 2003			
	Residential	Commercial	Partnership	Total
Net revenues	\$ 925,962	\$ 2,904,721	\$ --	\$ 3,830,683
Operating expenses and operating expenses - affiliated	372,287	1,111,179	--	1,483,466
Depreciation and amortization	171,356	744,243	13,964	929,563
Interest expense	(210,484)	(507,297)	(15,272)	(733,053)
Net income (loss)	81,638	23,913	(672,941)	(567,390)

During our most recent operating period net revenues for the residential segment have decreased primarily due to lower average occupancy and a decrease in the average rental rate per unit. Net revenues year to date for the commercial segment have slightly increased primarily due to increased average occupancy at Lakeshore Business Center Phase III as a result of our efforts to lease this recently constructed property. The increase is partially offset by a decrease in lease-buy-out income at Lakeshore Business Center Phases I and II and decreased average occupancy at Commonwealth Business Center Phase II, where we have not been successful in renewing several tenants' expired leases. We continue our leasing efforts by seeking new tenants for this property. Net revenues quarter to date have increased primarily due to an increase in common area maintenance income at Lakeshore Business Center Phase III, as the result of an increase in average occupancy. Operating expenses and operating expenses – affiliated increased primarily due to an increase in repairs and maintenance, changes in personnel and annual salary increases at both the residential and commercial segments. The increase is also due to an increase in bad debt expense at Lakeshore Business Center Phase II. Depreciation expense has increased due to the addition of fixed assets, while interest expense has remained relatively stable. The expenses related to our ongoing litigation file by limited partners and settlement directed merger costs have negatively impacted our partnership net losses.

Rental income and tenant reimbursements generated by our property and joint ventures for the three and nine months ended September 30, 2004 and 2003 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<u>Wholly-Owned Property</u>				
Commonwealth Business Center Phase II	\$ 108,396	\$ 122,209	\$ 306,718	\$ 366,079
<u>Joint Venture Properties</u>				
<u>(Ownership % on September 30, 2004)</u>				
The Willows of Plainview Phase II (90.30%)	\$ 267,645	\$ 306,070	\$ 845,253	\$ 925,962
Lakeshore Business Center Phase I (81.19%)	368,528	358,083	1,109,234	1,153,987
Lakeshore Business Center Phase II (81.19%)	365,532	332,046	1,067,678	1,112,246
Lakeshore Business Center Phase III (81.19%)	147,811	113,859	423,920	272,409

We believe the changes in rental income and tenant reimbursements from period to period are temporary effects of each property's specific mix of lease maturities and are 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 property and joint ventures as of September 30, 2004 and 2003 were as follows:

	September 30,	
	2004	2003
<u>Wholly-Owned Property</u>		
Commonwealth Business Center Phase II	56%	67%
<u>Joint Venture Properties</u>		
<u>(Ownership % on September 30, 2004)</u>		
The Willows of Plainview Phase II (90.30%)	82%	83%
Lakeshore Business Center Phase I (81.19%)	72%	72%
Lakeshore Business Center Phase II (81.19%)	73%	78%
Lakeshore Business Center Phase III (81.19%)	89%	89%

We believe the changes in occupancy on September 30 from year to year are temporary effects of each property's specific mix of lease maturities and are 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 property and joint ventures for the three and nine months ended September 30, 2004 and 2003 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<u>Wholly-Owned Property</u>				
Commonwealth Business Center Phase II	60%	68%	61%	68%
<u>Joint Venture Properties</u>				
<u>(Ownership % on September 30, 2004)</u>				
The Willows of Plainview Phase II (90.30%)	79%	87%	81%	85%
Lakeshore Business Center Phase I (81.19%)	72%	71%	72%	70%
Lakeshore Business Center Phase II (81.19%)	77%	81%	79%	81%
Lakeshore Business Center Phase III (81.19%)	89%	72%	89%	49%

We believe the changes in average occupancy from period to period are temporary effects of each property's specific mix of lease maturities and are 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 material line items within our Statements of Operations or line items for which there was a material change between the three and nine months ending September 30, 2004 and 2003.



### ***Rental Income and Tenant Reimbursements***

Our rental income and tenant reimbursements for the three months ended September 30, 2004 and 2003 were approximately \$1,258,000 and \$1,232,000, respectively. The increase of \$26,000, or 2%, was primarily due to an increase in common area maintenance income at Lakeshore Business Center Phase III, as the result of an increase in average occupancy.

Our rental income and tenant reimbursements for the nine months ended September 30, 2004 and 2003 were approximately \$3,753,000 and \$3,831,000, respectively. The decrease of \$78,000, or 2%, was primarily due to a decrease in average occupancy and a decrease in the average rental rate per unit at The Willows of Plainview Phase II.

### ***Operating Expenses and Operating Expenses – Affiliated***

Our operating expenses for the three months ended September 30, 2004 and 2003 were approximately \$433,000 and \$356,000, respectively. Our operating expenses for the nine months ended September 30, 2004 and 2003 were approximately \$1,172,000 and \$1,062,000, respectively. The increase of \$77,000, or 22%, and \$110,000, or 10%, respectively, is primarily due to an increase in repairs and maintenance at Lakeshore Business Center Phases I, II and III, Commonwealth Business Center Phase II and The Willows of Plainview Phase II, an increase in landscaping and cleaning services at Lakeshore Business Center Phases I, II and III and an increase in bad debt expense at Lakeshore Business Center Phase II. The overall increase is partially offset by a decrease in insurance expense at Lakeshore Business Center Phases I, II and III, a decrease in landscaping at Commonwealth Business Center Phase II, a decrease in loan fees at Lakeshore Business Center Phase III and a decrease in non-recoverable expenses related to legal fees at Commonwealth Business Center Phase II and Lakeshore Business Center Phases I, II and III.

Our operating expenses – affiliated for the three months ended September 30, 2004 and 2003 were approximately \$153,000 and \$127,000, respectively. Our operating expenses – affiliated for the nine months ended September 30, 2004 and 2003 were approximately \$468,000 and \$421,000, respectively. The increase of \$26,000, or 20%, and \$47,000, or 11%, respectively, is primarily due to annual salary increases and changes in personnel at The Willows of Plainview Phase II and Commonwealth Business Center Phase II.

Operating expenses – affiliated 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 – Affiliated***

Our professional and administrative expenses for the three months ended September 30, 2004 and 2003 were approximately \$161,000 and \$133,000, respectively. Our professional and administrative expenses for the nine months ended September 30, 2004 and 2003 were approximately \$605,000 and \$505,000, respectively. The increase of \$28,000, or 21%, and \$100,000, or 20%, respectively, is primarily the result of increased legal and professional fees associated with our ongoing litigation filed by limited partners and settlement directed merger costs. See Part I, Item I – Note 10 for information regarding or proposed merger.

Our professional and administrative expenses - affiliated for the three months ended September 30, 2004 and 2003 were approximately \$58,000 and \$43,000, respectively. Our professional and administrative expenses - affiliated for the nine months ended September 30, 2004 and 2003 were approximately \$161,000 and \$140,000, respectively. The increase of \$15,000, or 34%, and \$21,000, or 15%, respectively, is primarily the result of changes in personnel and annual salary increases.

Professional and administrative expenses – 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 - affiliated consisted of approximately the following for the periods presented:

	Nine Months Ended September 30,	
	2004	2003
Finance	\$ 39,000	\$ 30,000
Accounting	81,000	65,000
Investor Relations	17,000	19,000
Human Resources	9,000	10,000
Overhead	15,000	16,000
Total	<u>\$ 161,000</u>	<u>\$ 140,000</u>

### ***Depreciation and Amortization Expense***

Our depreciation and amortization expense did not change significantly for the three and nine months ended September 30, 2004 and 2003. There were no offsetting material changes.

### ***Interest Expense***

Our interest expense did not change significantly for the three and nine months ended September 30, 2004 and 2003. There were no offsetting material changes.

## 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 nine months ended September 30, 2004 and 2003.

Cash flows provided by (used in):

	Nine Months Ended September 30,	
	2004	2003
Operating activities	\$ 705,298	\$ 962,104
Investing activities	(316,791)	(731,610)
Financing activities	(280,555)	(207,388)
Net increase in cash and equivalents	\$ <u>107,952</u>	\$ <u>23,106</u>

Net cash provided by operating activities decreased from approximately \$962,000 for the nine months ended September 30, 2003 to approximately \$705,000 for the nine months ended September 30, 2004. The decrease is primarily due to increased net loss from operations as a result of increased expenses associated with our ongoing litigation filed by limited partners and settlement directed merger costs.

Net cash used in investing activities decreased from approximately \$732,000 for the nine months ended September 30, 2003 to approximately \$317,000 for the nine months ended September 30, 2004. The decrease is primarily due to decreased capital expenditures at Lakeshore Business Center Phase III.

Net cash flow used in financing activities increased from approximately \$207,000 for the nine months ended September 30, 2003 to approximately \$281,000 for the nine months ended September 30, 2004. The increase is primarily the result of refinancing the existing loans at Lakeshore Business Center Phases I and II, which suspended principal payments and refinancing the construction loan at Lakeshore Business Center Phase III, which resulted in decreased borrowings.

Due to the fact that no distributions were made during the nine months ended September 30, 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.

### ***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 addition, we may be required to obtain financing in connection with the capital improvements and leasing costs described below.

NTS Development Company has agreed to defer, until March 31, 2005, amounts owed to them by us as of December 31, 2003 and those amounts accruing from January 1, 2004 through March 31, 2005, other than as permitted by our cash flows. There can be no assurances that NTS Development Company will continue to defer amounts due them past March 31, 2005. If these amounts are not deferred, such action could have a material adverse effect on our liquidity and financial condition. Payment of such deferred amounts would be dependent upon available operating cash flow or funding from potential third-party resources in the form of loans or advances.

On October 18, 2004, the escrow balances of \$180,735 at Lakeshore Business Center Phase I and \$185,252 at Lakeshore Business Center Phase II were applied to the outstanding principal balances on the respective mortgages. This transaction does not change any terms of the existing mortgages.

Currently, our plans for renovations and other major capital expenditures include tenant improvements at our commercial properties as required by lease negotiations at these properties. Changes to current tenant finish improvements are a typical part of any lease negotiation. Improvements generally include a revision to the current floor plan to accommodate a tenant's needs, new carpeting and paint and/or wallcovering. The extent and cost of the improvements are determined by the size of the space being leased and whether the improvements are for a new tenant or incurred because of a lease renewal.

Over the next 12 months we have planned various building improvement and repair projects at both our commercial and residential segments. At Commonwealth Business Center Phase II, we plan to reseal and stripe the parking lot for an estimated cost of approximately \$10,000 and perform HVAC replacements for an estimated cost of approximately \$30,000. At Lakeshore Business Center Phase I, we plan to install security cameras for an estimated cost of approximately \$15,000, repaint the building exteriors for an estimated cost of approximately \$30,000, redecorate the building corridors and restrooms for an estimated cost of approximately \$30,000 and perform HVAC replacements for an estimated cost of approximately \$38,000. At Lakeshore Business Center Phase II, we plan to install security cameras for an estimated cost of approximately \$14,000 and perform HVAC replacements for an estimated cost of approximately \$16,000.

At Commonwealth Business Center Phase II, approximately \$71,000 in tenant improvements will be needed to return the building to full occupancy and retain existing tenants. At Lakeshore Business Center Phase II, we have a commitment from a tenant to provide approximately \$22,000 in tenant improvements on approximately 6,000 square feet. As of September 30, 2004, approximately \$13,000 of this cost has been incurred. At Lakeshore Business Center Phase III, we have a commitment from a tenant to provide approximately \$163,000 in tenant improvements on approximately 4,000 square feet. As of September 30, 2004, approximately \$98,000 of this cost has been incurred. This new lease agreement will bring Lakeshore Business Center Phase III to 100% percent occupancy by the end of 2004.

At The Willows of Plainview Phase II, we plan to install chimney saddles for an estimated cost of approximately \$28,000, perform HVAC replacements for an estimated cost of approximately \$31,000, repair the sidewalks for an estimated cost of approximately \$17,000, install security alarms for an estimated cost of approximately \$8,000 and resurface the tennis court for an estimated cost of approximately \$9,000.

The demands on liquidity as discussed above will be managed by our general partner using cash provided by operations, cash reserves, deferral of amounts owed to NTS Development Company and existing or additional financing secured by our properties. Typically, these capital improvements and leasing costs require use of existing financing or additional financing. There can be no guarantee that such funds will be available at which time our general partner will manage the demand on liquidity according to our best interest.

We are making efforts to increase the occupancy levels at our properties. At Commonwealth Business Center Phase II, the leasing and renewal negotiations are conducted by leasing agents that are employees of NTS Development Company in Louisville, Kentucky. The leasing agents are located in the same city as the property. All advertising is coordinated by NTS Development Company's marketing staff located in Louisville, Kentucky. The leasing and renewal negotiations at Lakeshore Business Center Phases I, II and III are managed by an employee of NTS Development Company. At The Willows of Plainview Phase II, we have an on-site leasing staff that are employees of NTS Development Company, who facilitate all on-site visits from potential tenants, make visits to local companies to promote fully furnished apartments, negotiate lease renewals with current residents and coordinate all local advertising with NTS Development Company's marketing staff.

Leases at our commercial properties provide for tenants to contribute toward the payment of common area maintenance expenses, insurance and real estate taxes. These lease provisions, along with the fact that residential leases are generally for a period of one year, provide limited protection to our operations from the impact of inflation and changing prices.

We have no other material commitments for renovations or capital improvements as of September 30, 2004.

### **Proposed Merger**

As part of the Settlement Agreement, our general partner and the general partners of the four public partnerships affiliated with us, have agreed to pursue a merger of the partnerships and several other affiliated real estate entities into NTS Realty Holdings Limited Partnership ("NTS Realty"). The merger is subject to, among other things, approval by a majority of the limited partner interests in each partnership. For the nine months ended September 30, 2004 and 2003, our share of the legal and professional fees for the proposed merger was approximately \$367,000 and \$87,000, respectively, which was included in our professional and administrative expenses.

On February 4, 2004, NTS Realty filed a joint consent solicitation statement/prospectus on Form S-4 with the Securities and Exchange Commission. The solicitation statement/prospectus presents the merger of NTS-Properties III; NTS-Properties IV; NTS-Properties V; NTS-Properties VI; and NTS-Properties VII, Ltd. with NTS Realty. Concurrent with the merger, ORIG, LLC, a Kentucky limited liability company, which is affiliated with our general partner, will contribute substantially all its real estate assets and all of its liabilities to NTS Realty. NTS Realty filed Amendment No. 1 on June 18, 2004, Amendment No. 2 on August 13, 2004 and Amendment No. 3 on September 30, 2004.

On October 25, 2004 and October 27, 2004, NTS Realty filed Amendment No. 4 and Amendment No. 5, respectively, to its registration statement on Form S-4, which includes a joint consent solicitation statement/prospectus, with the Securities and Exchange Commission to seek approval of the merger of NTS-Properties III, NTS-Properties IV, NTS-Properties V, NTS-Properties VI and NTS-Properties VII, Ltd. (the “Partnerships”) into NTS Realty. The general partners of the Partnerships agreed to pursue a merger of the Partnerships in the Stipulation and Agreement of Settlement that was jointly filed by the general partners, 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).

On October 27, 2004, the Securities and Exchange Commission signed an order declaring NTS Realty’s registration statement to be effective and the Partnerships began mailing the joint consent solicitation statement/prospectus to their respective limited partners.

### **Ownership of Joint Ventures**

On June 25, 2002, NTS-Properties Plus Ltd. merged with ORIG, LLC, (“ORIG”) an affiliate of ours. ORIG is the surviving entity as a result of this merger. NTS-Properties V continues to hold a 81.19% interest in the L/U II Joint Venture after the completion of the NTS-Properties Plus Ltd./ORIG Merger. ORIG now holds a 7.69% interest in the L/U II Joint Venture.

### **Website Information**

Our website address is [www.ntsdevelopment.com](http://www.ntsdevelopment.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available and may be accessed free of charge through the “About NTS” section of our website as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. Our website and the information contained therein or connected thereto are not incorporated into this quarterly report on Form 10-Q.

### **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk exposure with regard to financial instruments stems from changes in interest rates. All of our debt bears interest at a fixed rate with the exception of the \$2,912,356 mortgage payable on Lakeshore Business Center Phase III and the \$800,000 mortgage payable on Commonwealth Business Center Phase II. On September 30, 2004, a hypothetical 100 basis point increase in interest rates would result in an approximate \$278,000 decrease in the fair value of the debt and would increase interest expense on the variable rate mortgages by approximately \$37,000 annually.

### **Item 4 - Controls and Procedures**

Our General Partner, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2004. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2004. There were no material changes in our internal controls over financial reporting during the nine months ended September 30, 2004.

## PART II - OTHER INFORMATION

### Item 1 - 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 Stipulation and Agreement of Settlement (the "Settlement Agreement") jointly filed by the general partners (the "General Partners") of NTS-Properties III, NTS-Properties IV, NTS-Properties V, NTS-Properties VI and NTS-Properties VII, Ltd. (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) on December 5, 2003. At the final hearing, any member of the class of plaintiffs was given the opportunity to object to the final approval of the Settlement Agreement, the entry of a final judgment dismissing with prejudice the *Buchanan* litigation, or an application of an award for attorneys' fees and expenses to plaintiffs' counsel. The Superior Court's order provides, among other things, that: (1) the Settlement Agreement, and all transactions contemplated thereby, including the proposed merger of the Partnerships into NTS Realty Holdings Limited Partnership, are 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; (3) each class member is barred from transferring, selling or otherwise disposing of (other than by operation of law) their interests until the earlier of the closing date of the merger, the termination of the settlement or June 30, 2004; and (4) each class member who requested to be excluded from the settlement released their claims in the *Bohm* litigation.

On June 11, 2004, Joseph Bohm and David Duval, class members who objected to the Settlement Agreement but were overruled by the Superior Court, filed an appeal in the Court of Appeals of the State of California, first Appellate District.

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) against certain of the 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., which is no longer in existence. In the amended complaint, the plaintiffs purport to bring claims on behalf of a class of limited partners and derivatively on behalf of us and the Partnerships based on alleged overpayment of fees, prohibited investments, improper failures to make distributions, purchases of limited partnerships interests at insufficient prices and other violations of the limited partnership agreements. The plaintiffs are seeking, among other things, compensatory and punitive damages in an unspecified amount, an accounting, the appointment of a receiver or liquidating trustee, the entry of an order of dissolution against the Partnerships, a declaratory judgment and injunctive relief. No amounts have been accrued for the settlement of this action in our financial statements. Our general partner and legal counsel believe that this action is without merit and are vigorously defending it.



On March 2, 2004, we, along with all defendants, filed a Motion to Dismiss the *Bohm* litigation. After the Motion to Dismiss was fully briefed, the settlement agreement in the *Buchanan* litigation received final court approval. The Circuit Court of Jefferson County, Kentucky, instructed the plaintiffs in the *Bohm* litigation to file an amended complaint in light of the approved settlement of the *Buchanan* litigation. The plaintiffs in the *Bohm* litigation filed a corrected Second Amended Complaint on August 11, 2004. We, along with all defendants, filed a Motion to Strike the corrected Second Amended Complaint. A hearing on this motion is scheduled for January 14, 2005. Our general partner believes that the claims asserted in the corrected Second Amended Complaint have no merit.

**Items 2 through 5 are omitted because these items are inapplicable or the answers to the items are negative.**

### **Item 6 - Exhibits**

#### **Exhibit No.**

3	Amended and Restated Agreement and Certificate of Limited Partnership of NTS-Properties V, a Maryland limited partnership.	*
3a	First Amendment to Amended and Restated Agreement of Limited Partnership of NTS-Properties V, a Maryland limited partnership.	**
10	Property Management Agreement between NTS Development Company and NTS-Properties V, a Maryland limited partnership.	*
14	Code of Ethics.	***
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.	****
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.	****
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	****

32.2 Certification of Chief Financial Officer Pursuant to  
18 U.S.C. 1350, as adopted pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002.

\*\*\*\*

\* Incorporated by reference to documents filed with the Securities and Exchange Commission in connection with the filing of the Registration Statements on Form S-11 on May 1, 1984 (effective August 1, 1984) under Commission File No. 2-90818.

\*\* Incorporated by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 1987 under Commission File No. 0-13400.

\*\*\* See [www.ntsdevelopment.com](http://www.ntsdevelopment.com) for our code of ethics.

\*\*\*\* Attached as an exhibit with this Form 10-Q.

### **Reports on Form 8-K**

We filed a Form 8-K on August 17, 2004, to inform investors of a mini-tender offer by CMG Partners, LLC to purchase their interests in NTS-Properties V for \$250 per interest in cash. We also informed the investors that we recommended a rejection of the offer and provided reasons for our recommendation.

We filed a Form 8-K on October 29, 2004 to announce that on October 25, 2004 and October 27, 2004, NTS Realty Holdings Limited Partnership ("NTS Realty") filed Amendment No. 4 and Amendment No. 5, respectively, to its registration statement on Form S-4. NTS Realty filed the original Form S-4 on February 4, 2004, Amendment No. 1 on June 18, 2004, Amendment No. 2 on August 13, 2004 and Amendment No. 3 on September 30, 2004.

## 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-PROPERTIES V,  
A MARYLAND LIMITED PARTNERSHIP

By: NTS-Properties Associates V,  
General Partner  
By: NTS Capital Corporation,  
General Partner

/s/ Brian F. Lavin  
Brian F. Lavin  
President of NTS Capital Corporation

/s/ Gregory A. Wells  
Gregory A. Wells  
Chief Financial Officer of NTS Capital Corporation

Date: November 15, 2004

## EXHIBIT 31.1

### CERTIFICATION

I, Brian F. Lavin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NTS-Properties V, a Maryland 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 registrant's general partner:
  - 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: November 15, 2004

/s/ Brian F. Lavin

President of NTS Capital Corporation,  
General Partner of NTS-Properties Associates V,  
General Partner of NTS-Properties V, a Maryland limited partnership

## EXHIBIT 31.2

### CERTIFICATION

I, Gregory A. Wells, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NTS-Properties V, a Maryland 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 registrant's general partner:
  - 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: November 15, 2004

/s/ Gregory A. Wells

Chief Financial Officer of NTS Capital Corporation,  
General Partner of NTS-Properties Associates V,  
General Partner of NTS-Properties V, a Maryland limited partnership

## **EXHIBIT 32.1**

### **CERTIFICATION**

I, Brian F. Lavin, President of NTS Capital Corporation, the general partner of NTS-Properties Associates V, the general partner of NTS-Properties V, a Maryland limited partnership (the “Partnership”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The quarterly report on Form 10-Q of the Partnership for the period ended September 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: November 15, 2004

/s/ Brian F. Lavin

President of NTS Capital Corporation,  
General Partner of NTS-Properties Associates V,  
General Partner of NTS-Properties V, a Maryland limited partnership

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

## **EXHIBIT 32.2**

### **CERTIFICATION**

I, Gregory A. Wells, Chief Financial Officer of NTS Capital Corporation, the general partner of NTS-Properties Associates V, the general partner of NTS-Properties V, a Maryland limited partnership (the "Partnership"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The quarterly report on Form 10-Q of the Partnership for the period ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: November 15, 2004

/s/ Gregory A. Wells

Chief Financial Officer of NTS Capital Corporation,  
General Partner of NTS-Properties Associates V,  
General Partner of NTS-Properties V, a Maryland limited partnership

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