SECURITIES AND EXCHANGE COMMISSION

# FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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## FILER

**KOGER EQUITY INC**

CIK:**835664**| IRS No.: **592898045** | State of Incorp.:**FL** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **333-20975** | Film No.: **99573698**
SIC: **6798** Real estate investment trusts

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

FORM 10-K

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

For the fiscal year ended DECEMBER 31, 1998 OR

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

For the transition period from ------------ to -------------

Commission File Number 1-9997
KOGER EQUITY, INC.
(Exact name of Registrant as specified in its Charter)

| | |
|---|---|
| FLORIDA | 59-2898045 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 8880 FREEDOM CROSSING TRAIL<br>JACKSONVILLE, FLORIDA | 32256 |
| (Address of principal executive offices) | (Zip code) |

Registrant's telephone number, including area code: (904) 732-1000
Securities registered pursuant to Section 12(b) of the Act:

| TITLE OF EACH CLASS | NAME OF EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, Par Value $.01 | American Stock Exchange |

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

TITLE OF CLASS
NONE

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on March 1, 1999 was approximately $370,453,000.

The number of shares of registrant's Common Stock outstanding on March 1, 1999 was 26,579,609.

Documents Incorporated by Reference

The Company's Proxy Statement to be filed pursuant to Regulation 14A under the Securities Act of 1934 for the 1999 Annual Meeting of Shareholders is incorporated by reference in Part III of this report.



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# PART I

## ITEM 1. BUSINESS

### GENERAL

Koger Equity, Inc. ("KE") is a self-administered and self-managed equity real estate investment trust (a "REIT") which develops, owns, operates and manages suburban office buildings (the "Office Buildings") primarily located in 20 office centers (each a "Koger Center") located in 15 metropolitan areas throughout the southeastern and southwestern United States. As of December 31, 1998, KE owns 238 Office Buildings, of which 233 are in Koger Centers and five are outside Koger Centers but in metropolitan areas where Koger Centers are located. Koger-Vanguard Partners, L.P. ("KVP") is a limited partnership, for which KE is the general partner, which owns suburban office buildings located in a Koger Center. As of December 31, 1998, KVP owns 13 Office Buildings. The Office Buildings contain approximately 10 million net rentable square feet and were on average 90 percent leased as of December 31, 1998. During 1998, KE began construction of seven buildings, which will contain approximately 653,000 net rentable square feet and will be ready for occupancy at various times throughout 1999. While KE has initiated and expects to continue a pattern of vertically integrated development of suburban office properties for its own account, it may from time to time acquire developed properties compatible with its properties in other markets primarily in the Southeast and Southwest if such acquisitions can be made on terms favorable to the Company.

KE owns approximately 170 acres of unencumbered land held for development and approximately 18 acres of unencumbered land held for sale. A majority of the land held for development adjoins Office Buildings in 13 Koger Centers which have infrastructure, including roads and utilities, in place. KE intends over time to develop and construct office buildings using this land and currently has nine buildings under construction on approximately 59 acres of

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land held for development. KE expects to acquire additional land for development. In addition, KE provides leasing, management and other customary tenant-related services for the Koger Centers.

In addition to managing its own properties, KE provides property management services through its wholly owned subsidiaries, Southeast Properties Holding Corporation ("Southeast") and Koger Real Estate Services, Inc. ("KRES"), for 23 office buildings containing approximately 1.3 million net rentable square feet owned by unaffiliated parties. In conjunction with KRES, KE manages 22 office buildings owned by Centoff Realty Company, Inc. ("Centoff"), a subsidiary of Morgan Guaranty Trust Company of New York (KE, KVP, Southeast and KRES are hereafter referred to as the "Company").

KE operates in a manner to qualify as a REIT under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company will not, with certain limited exceptions, be taxed at the corporate level on taxable income distributed to its shareholders on a current basis. The Company distributes at least 95 percent of its annual REIT taxable income (which term is used herein as defined and modified in the Code) to its shareholders. To qualify as a REIT, a corporation must meet certain substantive tests: (a) at least 95 percent of its gross income must be derived from certain passive and real estate sources; (b) at least 75 percent of its gross income must be derived from certain real estate sources; (c) at the close of each calendar quarter, it must meet certain tests designed to ensure that its assets consist principally (at least 75 percent by value) of real estate assets, cash and cash equivalents and that its holdings of securities are adequately diversified; (d) each year, it must distribute at least 95 percent of its REIT taxable income; and (e) at no time during the second half of any calendar year may the Company be "closely held" (i.e., have more than 50 percent in value of its outstanding stock owned, directly, indirectly or constructively, by not more than five individuals). The constructive ownership rules, among other things, treat the shareholders of a corporation as owning proportionately any stock in another corporation owned by the first corporation. Management fee revenue does not qualify as real estate or passive income for purposes of determining whether the Company has met the REIT requirements that at least 95 percent of the Company's gross income be derived from certain real estate and passive sources and that at least 75 percent of its gross income be derived from certain real estate sources. Accordingly, in the event the Company derives income in excess of five percent from management and other "non-real estate" and "non-passive" activities, the Company would no longer qualify as a REIT for federal income tax purposes and would be required to pay federal income taxes as a business corporation.





A major governmental tenant, when all of its respective departments and agencies which lease space in the Company's buildings are combined, leases more than 10 percent of the net rentable area of the Company's buildings and contributes more than 10 percent of the Company's annualized rentals as of December 31, 1998. At that date, the State of Florida accounted for an aggregate of 10 percent of the Company's total net rentable square feet leased and 11.1 percent of the Company's total annualized rental revenues. Some of the Company's principal tenants are the State of Florida, the United States of America, Blue Cross and Blue Shield of Florida, United Healthcare, Wellspring Resources, Ford Motors, Hanover Insurance, Hoechst Celanese Corp., Travelers Insurance and Landstar. Governmental tenants (including the State of Florida and the United States of America), which account for 20.6 percent of the Company's leased space, may be subject to budget reductions in times of recession and governmental austerity measures. There can be no assurance that governmental appropriations for rents may not be reduced. Additionally, certain private-sector tenants, which have contributed to the Company's rent stream, may reduce their current demands, or curtail their future need, for additional office space.

COMPETITION

The Company competes in the leasing of office space with a considerable number of other realty concerns, including local, regional and national, some of which have greater resources than the Company. Through its ownership and management of suburban office parks, the Company seeks to attract tenants by offering office space convenient to residential areas and away from the congestion and attendant traffic problems of the downtown business districts. In recent years local, regional and national concerns have built competing office parks and single buildings in suburban areas in which the Company's Office Buildings are located. In addition, the Company competes for tenants with large high-rise office buildings generally located in the downtown business districts of these metropolitan areas. Although competition from other lessors of office space varies from city to city, the Company has been able to attain and maintain what it considers satisfactory occupancy levels at satisfactory rental rates.

INVESTMENT POLICIES

During 1998, the Company expanded its revolving credit facility from $100 million to $150 million. Based on its improved financial structure, the

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Company is in a position to capitalize on some of its strengths, such as the value of its franchise in the suburban office park market and its operating systems, development expertise, acquisition expertise and unimproved land available for development. The Company intends over time to develop and construct office buildings primarily using its existing inventory of 170 acres of land held for development, most of which is partially or wholly improved with streets and/or utilities and is located in various metropolitan areas where the Company currently operates suburban office parks. The Company may also acquire existing office buildings or additional land for development in other markets primarily in the Southeast and Southwest that the Company considers favorable. Although all of the Company's properties are located in the Southeast and Southwest, management does not consider that the Company's development and acquisitions activities are limited to any particular area.

The investment policies of the Company may be changed by its directors at any time without notice to, or a vote of, security holders. Although, the Company has no fixed policy which limits the percentage of its assets which may be invested in any one type of investment or the geographic areas in which the Company may acquire properties, the Company intends to continue to operate so as to qualify for tax treatment as a REIT. The Company may in the future invest in other types of office buildings, apartment buildings, shopping centers, and other properties. The Company also may invest in the securities (including mortgages) of companies primarily engaged in real estate activities; however, it does not intend to become an investment company regulated under the Investment Company Act of 1940.

For the year ended December 31, 1998, all of the Company's rental revenues were derived from the buildings purchased or constructed by the Company. The Company's 1998 interest revenues were derived from temporary cash investments.





EMPLOYEES

In connection with its current real estate operations and property management agreements, the Company has a combined financial, administrative, leasing, and center maintenance staff of 239 employees. A resident general manager is responsible for the leasing and operations of all buildings in a Koger Center or metropolitan area. The Company has approximately 93 employees who perform maintenance activities.

ITEM 2. PROPERTIES

GENERAL

As of December 31, 1998, the Company owns 251 Office Buildings located in the 15 metropolitan areas of Birmingham, Alabama; Jacksonville, Orlando, St. Petersburg, and Tallahassee, Florida; Atlanta, Georgia; Charlotte and Greensboro, North Carolina; Tulsa, Oklahoma; Greenville, South Carolina; Memphis, Tennessee; Austin, El Paso, and San Antonio, Texas; and Richmond, Virginia. In addition, the Company has nine buildings under construction. The Koger Centers have been developed in campus-like settings with extensive landscaping and ample tenant parking. The Office Buildings are generally one to five-story structures of contemporary design and constructed of masonry, concrete and steel, with facings of brick, concrete and glass. The Koger Centers are generally located with easy access, via expressways, to the central business district and to shopping and residential areas in the respective communities. The properties are well maintained and adequately covered by insurance.

Leases on the Office Buildings vary between net leases (under which the tenant pays some operating expenses, such as utilities, insurance and repairs) and gross leases (under which the Company pays all such items). Most leases are on a gross basis and are for terms generally ranging from three to five years. In some instances, such as when a tenant rents the entire building, leases are for terms of up to 20 years. As of December 31, 1998, the Office Buildings were on average 90 percent leased and the average annual rent per net rentable square foot leased was $15.82. The buildings are occupied by numerous tenants, many of whom lease relatively small amounts of space, conducting a broad range of commercial activities.

New leases and renewals of existing leases are negotiated at the current market rate at the date of execution. The Company endeavors to include escalation provisions in all of its gross leases. As of December 31, 1998, approximately 27 percent of the Company's annualized gross rental revenues were derived from existing leases containing rental escalation provisions based upon changes in the Consumer Price Index (some of which contain maximum rates of increases); approximately 69 percent of such revenues were derived from leases containing escalation provisions based upon fixed steps or real estate tax and operating expense increases; and approximately four percent of such revenues were derived from leases without escalation provisions. Some of the Company's leases contain options which allow the lessee to renew for varying periods,

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generally at the same rental rate and subject, in most instances, to Consumer Price Index escalation provisions.

The Company owns approximately 198 acres of unimproved land (188 acres of which are suitable for development) located in the metropolitan areas of Birmingham, Alabama; Jacksonville, Orlando and St. Petersburg, Florida; Atlanta, Georgia; Charlotte and Greensboro, North Carolina; Tulsa, Oklahoma; Columbia and Greenville, South Carolina; Memphis, Tennessee; Austin, El Paso and San Antonio, Texas; and Richmond, Virginia. Each of these parcels of land has been partially or wholly developed with streets and/or utilities. The Company currently has nine buildings under construction on approximately 59 acres of this unimproved land.





PROPERTY LOCATION AND OTHER INFORMATION

The following table sets forth information relating to the properties owned by the Company as of December 31, 1998.

<TABLE>
<CAPTION>

| KOGER CENTER/LOCATION | NUMBER OF BUILDINGS | AVERAGE AGE OF BUILDINGS (IN YEARS) (1) | NET RENTABLE SQ. FT. | LAND IMPROVED WITH BLDGS. (IN ACRES) | UNIMPROVED LAND (IN ACRES) |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Atlanta Chamblee | 21 | 18 | 938,100 | 74.9 | 3.8(2) |
| Atlanta Gwinnett | 2 | 4 | 139,400 | 8.9 | 26.6 |
| Atlanta Perimeter | 1 | 13 | 154,100 | 5.3 | |
| Austin | 12 | 18 | 370,900 | 29.6 | 1.8 |
| Birmingham Colonnade | 4 | 9 | 279,300 | 24.1 | 23.4(3) |
| Birmingham Colonnade - Retail | 1 | 9 | 112,600 | 15.7 | |
| Charlotte Carmel | 3 | 3 | 283,300 | 25.3 | 7.7 |
| Charlotte East | 11 | 18 | 468,900 | 39.9 | 3.9 |
| Charlotte Vanguard | 13 | 16 | 481,700 | 39.7 | 17.1 |
| Columbia Spring Valley | | | | | 1.0 |
| El Paso | 16 | 24 | 298,300 | 22.7 | 2.4(4) |
| Greensboro South | 13 | 16 | 610,700 | 46.0 | |
| Greensboro Wendover | | | | | 18.5(5) |
| Greenville Park Central | 3 | 14 | 134,000 | 9.9 | 3.5 |
| Greenville Roper Mt. | 9 | 13 | 350,900 | 29.2 | |
| Jacksonville Baymeadows | 7 | 6 | 664,200 | 51.1 | |
| Jacksonville Central | 31 | 26 | 666,000 | 47.2 | 1.6 |
| Jacksonville JTB | 1 | 7 | 23,000 | 2.2 | 29.8(6) |
| Memphis Germantown | 5 | 6 | 392,700 | 29.8 | 4.8(7) |
| Orlando Central | 21 | 27 | 554,400 | 44.7 | 1.3 |
| Orlando University | 2 | 10 | 159,600 | 11.6 | 15.5(8) |
| Richmond Paragon | 1 | 13 | 127,700 | 8.1 | |
| Richmond South | | | | | 5.8 |
| San Antonio Airport | 2 | 14 | 200,100 | 7.9 | |
| San Antonio West | 26 | 21 | 788,900 | 63.5 | 7.2(9) |
| St. Petersburg | 14 | 18 | 509,000 | 62.9 | 12.5 |
| Tallahassee | 19 | 16 | 789,600 | 62.7 | |
| Tulsa | 13 | 19 | 476,400 | 39.4 | 10.0 |
| Total | 251 | | 9,973,800 | 802.3 | 198.2 |
| Average | | 16 | | | |

</TABLE>

(1) The age of each building was weighted by the net rentable square feet for such building to determine the weighted average age of (a) the buildings in each Koger Center or location and (b) all buildings owned by the Company.
(2) The Company currently has a building under construction on approximately 1.3 acres of this parcel.
(3) The Company currently has a building under construction on approximately 6.9 acres of this parcel.
(4) The Company currently has a building under construction on approximately 2.4 acres of this parcel.
(5) The Company currently has a building under construction on approximately 7.8 acres of this parcel.
(6) The Company currently has two buildings under construction on approximately 22.1 acres of this land.
(7) The Company currently has a building under construction on approximately 4.8 acres of this parcel.

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(8) The Company currently has a building under construction on approximately 6.8 acres of this parcel.
(9) The Company currently has a building under construction on approximately 7.2 acres of this parcel.





PERCENT LEASED AND AVERAGE RENTAL RATES

The following table sets forth, with respect to each Koger Center or location, the number of buildings, number of leases, net rentable square feet, percent leased, and the average annual rent per net rentable square foot leased, in each case as of December 31, 1998.

| KOGER CENTER/LOCATION | NUMBER OF BUILDINGS | NUMBER OF LEASES | NET RENTABLE SQUARE FEET | PERCENT LEASED (1) | AVERAGE ANNUAL RENT PER SQUARE FOOT(2) |
|---|---|---|---|---|---|
| Atlanta Chamblee | 21 | 158 | 938,100 | 96% | $ 16.53 |
| Atlanta Gwinnett | 2 | 27 | 139,400 | 88% | 19.23 |
| Atlanta Perimeter | 1 | 10 | 154,100 | 100% | 18.83 |
| Austin | 12 | 185 | 370,900 | 99% | 19.62 |
| Birmingham Colonnade | 4 | 29 | 279,300 | 96% | 15.66 |
| Birmingham Colonnade - Retail | 1 | 33 | 112,600 | 91% | 11.40 |
| Charlotte Carmel | 3 | 35 | 283,300 | 80% | 17.94 |
| Charlotte East | 11 | 215 | 468,900 | 84% | 14.22 |
| Charlotte Vanguard | 13 | 82 | 481,700 | 90% | 11.73 |
| El Paso | 16 | 185 | 298,300 | 88% | 15.63 |
| Greensboro South | 13 | 201 | 610,700 | 78% | 15.92 |
| Greenville Park Central | 3 | 57 | 134,000 | 93% | 17.20 |
| Greenville Roper Mt. | 9 | 142 | 350,900 | 94% | 16.81 |
| Jacksonville Baymeadows | 7 | 44 | 664,200 | 99% | 15.12 |
| Jacksonville Central | 31 | 232 | 666,000 | 86% | 13.34 |
| Jacksonville JTB | 1 | 1 | 23,000 | 100% | 16.97 |
| Memphis Germantown | 5 | 72 | 392,700 | 89% | 18.61 |
| Orlando Central | 21 | 160 | 554,400 | 93% | 15.43 |
| Orlando University | 2 | 49 | 159,600 | 98% | 18.27 |
| Richmond Paragon | 1 | 25 | 127,700 | 82% | 19.15 |
| San Antonio Airport | 2 | 66 | 200,100 | 86% | 17.62 |
| San Antonio West | 26 | 265 | 788,900 | 85% | 14.47 |
| St. Petersburg | 14 | 140 | 509,000 | 87% | 14.95 |
| Tallahassee | 19 | 104 | 789,600 | 91% | 18.20 |
| Tulsa | 13 | 165 | 476,400 | 88% | 12.31 |
| Total | 251 | 2,682 | 9,973,800 | | |
| Weighted Average | | | | 90% | $ 15.82 |

(1) The percent leased rates have been calculated by dividing total net rentable square feet leased in a building by net rentable square feet in such building, which excludes public or common areas.
(2) Rental rates are computed by dividing (a) total annualized base rents (which excludes expense pass-throughs and reimbursements) for a Koger Center or location as of December 31, 1998 by (b) the net rentable square feet applicable to such total annualized base rents.





LEASE EXPIRATIONS ON THE COMPANY'S PROPERTIES

The following schedule sets forth with respect to all of the Office Buildings (a) the number of leases which will expire in calendar years 1999 through 2007, (b) the total net rentable area in square feet covered by such leases, (c) the percentage of total net rentable square feet leased represented by such leases, (d) the average annual rent per square foot for such leases, (e) the current annualized rents represented by such leases, and (f) the percentage of gross annualized rents contributed by such leases. This information is based on the buildings owned by the Company on December 31, 1998 and on the terms of leases in effect as of December 31, 1998, on the basis of then existing base

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rentals, and without regard to the exercise of options to renew. Furthermore, the information below does not reflect that some leases have provisions for early termination for various reasons, including, in the case of government entities, lack of budget appropriations. Leases were renewed on approximately 60 percent, 65 percent and 63 percent of the Company's net rentable square feet, which were scheduled to expire during 1998, 1997 and 1996, respectively.

| PERIOD | NUMBER OF LEASES EXPIRING | NUMBER OF SQUARE FEET EXPIRING | PERCENTAGE OF TOTAL SQUARE FEET LEASED REPRESENTED BY EXPIRING LEASES | AVERAGE ANNUAL RENT PER SQUARE FOOT UNDER EXPIRING LEASES | TOTAL ANNUALIZED RENTS UNDER EXPIRING LEASES | PERCENTAGE OF TOTAL ANNUAL. RENTS REPRESENTED BY EXPIRING LEASES |
|---|---|---|---|---|---|---|
| 1999 | 1,105 | 1,858,296 | 20.7% | $ 15.27 | $ 28,370,619 | 20.0% |
| 2000 | 543 | 1,523,956 | 17.0% | 15.92 | 24,268,509 | 17.1% |
| 2001 | 510 | 1,824,968 | 20.4% | 15.96 | 29,126,963 | 20.5% |
| 2002 | 160 | 853,183 | 9.5% | 16.23 | 13,846,511 | 9.8% |
| 2003 | 206 | 1,361,946 | 15.2% | 16.17 | 22,017,268 | 15.5% |
| 2004 | 101 | 521,519 | 5.8% | 12.46 | 6,497,076 | 4.6% |
| 2005 | 20 | 120,679 | 1.4% | 16.52 | 1,993,046 | 1.4% |
| 2006 | 12 | 223,113 | 2.5% | 19.60 | 4,373,393 | 3.1% |
| 2007 | 10 | 276,393 | 3.1% | 16.77 | 4,634,020 | 3.3% |
| Other | 15 | 396,181 | 4.4% | 16.70 | 6,614,386 | 4.7% |
| Total | 2,682 | 8,960,234 | 100.0% | $ 15.82 | $ 141,741,791 | 100.0% |

BUILDING IMPROVEMENTS, TENANT IMPROVEMENTS AND DEFERRED TENANT COSTS ON THE COMPANY'S PROPERTIES

The following table sets forth certain information with respect to the building improvements made, and tenant improvement costs and deferred tenant costs (leasing commissions and tenant relocation costs) incurred, by the Company during the three years ended December 31, 1998. The information set forth below is not necessarily indicative of future expenditures for these items.

| | | BUILDING IMPROVEMENTS | | TENANT IMPROVEMENTS | | DEFERRED TENANT COSTS | |
|---|---|---|---|---|---|---|---|
| YEAR | NUMBER OF OFFICE BUILDINGS | TOTAL | PER AVERAGE NET SQUARE FT. OWNED | TOTAL | PER AVERAGE NET SQUARE FT. OWNED | TOTAL | PER AVERAGE NET SQUARE FT. OWNED |
| 1996 | 215 | $2,795,000 | $0.36 | $ 7,873,000 | $ 1.03 | $1,862,000 | $ 0.24 |
| 1997 (1) | 226 | 3,116,000 | 0.39 | 7,513,000 | 0.94 | 1,902,000 | 0.24 |
| 1998 (2) | 243 | 4,255,000 | 0.48 | 11,655,000 | 1.31 | 1,755,000 | 0.20 |

(1) Excludes the two buildings for which construction was completed during 1997.
(2) Excludes the eight buildings for which construction was completed during 1997 and 1998.





FIXED RATE INDEBTEDNESS ON THE COMPANY'S PROPERTIES

The following table sets forth with respect to each Koger Center or location the principal amount (dollars in thousands) of, and the weighted average interest rate on, the indebtedness of the Company having a fixed interest rate and encumbering the Company's properties in such Koger Center or location as of December 31, 1998.

| KOGER CENTER/LOCATION | MORTGAGE LOAN BALANCE | WEIGHTED AVERAGE INTEREST RATE |
|---|---|---|
| Atlanta Chamblee | $ 0 | -- |

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| | | |
|---|---|---|
| Atlanta Gwinnett | 0 | -- |
| Atlanta Perimeter | 0 | -- |
| Austin | 16,576 | 8.33% |
| Birmingham Colonnade | 0 | -- |
| Birmingham Colonnade - Retail | 0 | -- |
| Charlotte Carmel | 0 | -- |
| Charlotte East | 0 | -- |
| Charlotte Vanguard | 22,129 | 8.13% |
| El Paso | 8,776 | 8.33% |
| Greensboro South | 0 | -- |
| Greenville Park Central | 0 | -- |
| Greenville Roper Mt | 10,726 | 8.33% |
| Jacksonville Baymeadows | 26,815 | 8.33% |
| Jacksonville Central | 0 | -- |
| Jacksonville JTB | 0 | -- |
| Memphis Germantown | 15,624 | 8.25% |
| Orlando Central | 24,377 | 8.33% |
| Orlando University | 0 | -- |
| Richmond Paragon | 8,365 | 8.00% |
| San Antonio Airport | 0 | -- |
| San Antonio West | 22,948 | 8.25% |
| St. Petersburg | 19,530 | 8.25% |
| Tallahassee | 40,037 | 8.10% |
| Tulsa | 0 | -- |
| Total | $215,903 | 8.26% |

</TABLE>

For additional information on these loans see Note 3, "Mortgages and Loans Payable" of the Notes to Consolidated Financial Statements.

INDEBTEDNESS WITH VARIABLE INTEREST RATES

As of December 31, 1998, the Company had a $150 million secured revolving credit facility with variable interest rates and encumbering certain of the Company's properties. The following table sets forth historical information with respect to indebtedness having variable interest rates (dollars in thousands):





<TABLE>
<CAPTION>

| YEAR ENDED DECEMBER 31 | BALANCE AT END OF PERIOD | WEIGHTED AVERAGE INT RATE AT END OF PERIOD | MAXIMUM AMOUNT OUTSTANDING | APPROXIMATE AVERAGE AMOUNT OUTSTANDING | APPROXIMATE WTG AVG INT RATE DURING THE PERIOD |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1998 | $ 92,000 | 7.1% | $ 92,000 | $ 45,181 | 7.0% |
| 1997 | 1 | 8.5% | 40,000 | 8,077 | 8.0% |
| 1996 | 0 | -- | 22,276 | 18,280 | 9.3% |

</TABLE>

ITEM 3. LEGAL PROCEEDINGS

None.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed on the American Stock Exchange under the ticker symbol KE. The high and low closing sales prices for the periods indicated in the table below were:

<TABLE>
<CAPTION>

| | YEARS | | | | | |
|---|---|---|---|---|---|---|
| | 1998 | | 1997 | | 1996 | |
| QUARTER ENDED | HIGH | LOW | HIGH | LOW | HIGH | LOW |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| March 31 | $23 3/4 | $ 20 5/8 | $18 5/8 | $17 1/4 | $12 1/4 | $10 3/4 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| June 30 | 22 1/2 | 18 5/8 | 18 1/4 | 15 3/8 | 13 3/8 | 11 |
| September 30 | 21 13/16 | 16 3/8 | 20 13/16 | 17 11/16 | 16 | 13 |
| December 31 | 18 1/4 | 15 5/8 | 23 3/8 | 20 1/8 | 18 3/4 | 15 1/8 |

</TABLE>

The Company intends that any dividend paid in respect of its common stock during the last quarter of each year will, if necessary, be adjusted to satisfy the REIT qualification requirement that at least 95 percent of the Company's REIT taxable income for such taxable year be distributed. The Company's secured revolving credit facility requires the Company to maintain certain financial ratios, which includes a limitation on dividends. However, this covenant will not restrict the Company from paying the dividends required to maintain its qualification as a REIT.

Set forth below are the dividends per share paid during the three years ended December 31, 1998.

<TABLE>
<CAPTION>

| QUARTER ENDED | YEARS 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| March 31 | $.25 | $.05 | - |
| June 30 | .25 | .05 | - |
| September 30 | .30 | .10 | - |
| December 31 | .30 | .15 | - |

</TABLE>

On February 4, 1999, the Company paid a quarterly dividend of $0.30 per share to shareholders of record on December 31, 1998. In addition, the Company's Board of Directors has declared a quarterly dividend of $0.30 per share payable on May 6, 1999, to shareholders of record on March 31, 1999.

On March 1, 1999, there were approximately 1,363 shareholders of record and the closing price of the Company's common stock on the American Stock Exchange was $13.9375.





ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements (as defined below) and the notes thereto.

<TABLE>
<CAPTION>

| | (IN THOUSANDS EXCEPT PER SHARE AND PROPERTY DATA) | | | | |
|---|---|---|---|---|---|
| INCOME INFORMATION | 1998 | 1997 | 1996 | 1995 | 1994 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Rental revenues and other rental services | $133,663 | $109,501 | $ 98,805 | $ 95,443 | $ 94,388 |
| Interest revenues | 446 | 1,274 | 1,951 | 14,440 | 1,062 |
| Total revenues | 138,082 | 113,989 | 104,072 | 125,750 | 100,376 |
| Property operations expenses | 53,719 | 44,453 | 41,597 | 40,830 | 39,711 |
| Depreciation and amortization | 28,381 | 24,073 | 21,127 | 19,102 | 16,728 |
| Mortgage and loan interest | 16,616 | 16,517 | 18,701 | 23,708 | 25,872 |
| Net income | 29,602 | 21,204 | 10,501 | 28,990 | 4,215 |
| Earnings per common share - diluted | 1.10 | .94 | .54 | 1.61 | .24 |
| Dividends declared per common share | 1.15 | .55 | .05 | | |
| Weighted average shares outstanding - diluted | 26,901 | 22,495 | 19,500 | 18,011 | 17,719 |
| BALANCE SHEET INFORMATION | | | | | |
| Operating properties (before depreciation) | $872,183 | $681,249 | $582,972 | $571,313 | $578,237 |
| Undeveloped land | 20,535 | 14,761 | 27,108 | 30,281 | 36,012 |
| Total assets | 834,995 | 656,097 | 584,666 | 578,756 | 613,806 |
| Mortgages and loans payable | 307,903 | 181,963 | 203,044 | 254,909 | 323,765 |
| Total shareholders' equity | 464,763 | 444,262 | 364,135 | 310,697 | 280,601 |
| OTHER INFORMATION | | | | | |
| Funds from operations (1) | $ 56,486 | $ 42,324 | $ 33,154 | $ 36,707 | $ 23,475 |
| Income before interest, income taxes, depreciation and amortization | $ 75,555 | $ 62,729 | $ 51,144 | $ 71,866 | $ 47,042 |
| Number of buildings (at end of period) | 251 | 228 | 215 | 216 | 219 |
| Percent leased (at end of period) | 90% | 92% | 92% | 91% | 90% |

</TABLE>

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

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net income | $ 29,602 | $21,204 | $10,501 | $28,990 | $ 4,215 |
| Depreciation - real estate | 25,146 | 21,795 | 19,538 | 17,363 | 15,202 |
| Amortization - deferred tenant costs | 1,464 | 1,031 | 929 | 656 | 452 |
| Amortization - goodwill | 170 | 170 | 171 | 504 | 665 |
| Minority interest | 139 | | | | |
| Litigation costs | | | 424 | 176 | 1,902 |
| Loss (gain) on sale or disposition of assets | (35) | (1,955) | 497 | 255 | 43 |
| Provision for loss on land held for sale | | (379) | | 970 | 996 |
| Gain on note to Southeast | | | (292) | (11,288) | |
| Loss (gain) on early retirement of debt | | 458 | 1,386 | (919) | |
| Funds from Operations | $ 56,486 | $42,324 | $33,154 | $36,707 | $23,475 |

</TABLE>

The 1995 calculated Funds from Operations includes $13,066 of interest revenue associated with mortgage notes, which KE acquired during 1995. These mortgage notes were retired during 1995.





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

The following discussion should be read in conjunction with the selected financial data and the consolidated financial statements (the "Consolidated Financial Statements") appearing elsewhere in this report. Historical results and percentage relationships in the Consolidated Financial Statements, including trends which might appear, should not be taken as indicative of future operations or financial position. The Consolidated Financial Statements include the accounts of KE, Southeast, KRES and KVP (collectively, the "Company").

GENERAL

The Company has prepared, and is responsible for, the accompanying Consolidated Financial Statements and the related consolidated financial information included in this report. Such Consolidated Financial Statements were prepared in accordance with generally accepted accounting principles and include amounts determined using management's best judgments and estimates of the expected effects of events and transactions that are being accounted for currently.

The Company's independent auditors have audited the accompanying Consolidated Financial Statements. The objective of their audit, conducted in accordance with generally accepted auditing standards, was to express an opinion on the fairness of presentation, in all material respects, of the Company's consolidated financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. They evaluated the Company's internal control structure to the extent considered necessary by them to determine the audit procedures required to support their report on the Consolidated Financial Statements and not to provide assurance on such structure.

The Company maintains accounting and other control systems which management believes provide reasonable assurance that the Company's assets are safeguarded and that the Company's books and records reflect the authorized transactions of the Company, although there are inherent limitations in any internal control structure, as well as cost versus benefit considerations. The Audit Committee of the Company's Board of Directors, which is composed exclusively of directors who are not officers of the Company, directs matters relating to audit functions, annually appoints the auditors subject to ratification of the Company's Board of Directors, reviews the auditors' independence, reviews the scope and results of the annual audit, and periodically reviews the adequacy of the Company's internal control structure with its external auditors, its internal auditors and its senior management.

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RESULTS OF OPERATIONS

RENTAL REVENUES. Rental revenues increased $24,152,000 from the year ended December 31, 1997 to the year ended December 31, 1998. This increase resulted primarily from (i) the increase in the Company's average rental rate and (ii) increases in the rental revenues ($18,915,000) from properties acquired and construction completed during 1997 and 1998. For 1997, rental revenues increased $10,582,000 from the year ended December 31, 1996. This increase resulted primarily from (i) increases in the percent leased rate and the Company's average rental rate and (ii) rental revenues ($5,051,000) from the properties acquired and construction completed during 1997. As of December 31, 1998, the Company's buildings were on average 90 percent leased. As of December 31,1997 and 1996, the buildings owned by the Company were on average 92 percent leased.

MANAGEMENT FEE REVENUES. Management fee revenues decreased $360,000 for 1998, as compared to 1997, due primarily to a decrease in leasing fees earned. For 1997, management fee revenues remained basically unchanged from those earned in 1996.





INTEREST REVENUES. Interest revenues decreased $828,000 for 1998, as compared to 1997, due to the lower average balance of cash to invest. For 1997, interest revenues decreased $677,000 from the year ended December 31, 1996. This decrease was also due to the lower average balance of cash to invest.

EXPENSES. Property operations expense includes such charges as utilities, real estate taxes, janitorial, maintenance, property insurance, provision for uncollectible rents, and management costs. During 1998, property operations expense increased by $9,266,000 or 20.8 percent, compared to 1997, primarily due to (i) increases in property operations expense ($7,512,000) for the properties acquired and construction completed during 1997 and 1998, (ii) increased real estate taxes, (iii) increased utility costs and (iv) increased property management costs. During 1997, property operations expense increased by $2,856,000 or 6.9 percent, compared to 1996, primarily due to (i) increased real estate taxes and (ii) property operations expense ($1,994,000) for the properties acquired and construction completed during 1997. For 1998, 1997 and 1996, property operations expense as a percentage of total rental revenues was 40.2 percent, 40.6 percent and 42.1 percent, respectively.

Depreciation expense has been calculated on the straight-line method based upon the useful lives of the Company's depreciable assets, generally 3 to 40 years. For 1998, depreciation expense increased $3,442,000 or 15.5 percent, compared to the prior year, due to the properties acquired and construction completed during 1997 and 1998. For 1997, depreciation expense increased $2,405,000 or 12.1 percent, compared to the prior year, due to (i) improvements made to the properties owned by the Company during 1997 and 1996 and (ii) the properties acquired and construction completed during 1997 ($841,000).

Amortization expense increased $866,000 during 1998, compared to 1997, due primarily to (i) financing costs incurred for increasing the secured revolving credit facility from $50 million to $100 million and (ii) deferred tenant costs incurred during 1998. For 1997, amortization expense increased $541,000 compared to the prior year, due primarily to financing costs which were incurred for (i) the mortgage with the Northwestern Mutual Life Insurance Company ("Northwestern") and (ii) the secured revolving credit facility which closed during 1997.

Compared to 1997, interest expense remained basically unchanged during 1998. Interest expense decreased by $2,184,000 during 1997, compared to 1996, primarily due to (i) the reduction in the average balance of mortgages and loans payable and (ii) the interest capitalized due to the Company's construction of office buildings. During 1998, 1997, and 1996, the weighted average interest rate on the Company's variable rate loans was 7.0 percent, 8.0 percent and 9.3 percent, respectively. The Company's average outstanding amount under such loans during 1998, 1997, and 1996 was $45,181,000, $8,077,000 and $18,280,000, respectively.

General and administrative expenses were 0.8 percent, 1.0 percent, and 1.1 percent of average invested assets for 1998, 1997 and 1996, respectively. For 1998, general and administrative expenses increased $579,000, compared to 1997, primarily due to (i) increases in group insurance costs, (ii) costs for corporate office relocation and (iii) legal fees incurred for organization of KVP. For 1997, general and administrative expenses decreased $249,000, compared to 1996, primarily due to decreases in the accrual for the Company's contribution to the 401(k) Plan.

Direct costs of management contracts decreased $528,000 during 1998, compared to 1997, due to decreased costs associated with providing property management services for all management contracts. For 1997, direct costs of management contracts remained basically unchanged from those incurred during

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1996.

Other expenses decreased $528,000 during 1997, compared to 1996, due to the reduction in litigation costs ($424,000) and the reduction in real estate taxes on the Company's unimproved land caused by (i) the sale of two land parcels (25.3 acres) and (ii) the assignment of 52 acres to construction projects.





Based on the proceeds received from the sale of the Miami land parcel and the Company's analysis of the fair value of the remaining land parcels held for sale during 1997, the Company reversed $379,000 of the provision for loss on land held for sale, which had been previously recorded.

Management periodically reviews its investment in properties for evidence of other than temporary impairments in value. Factors considered consist of, but are not limited to, the following: current and projected occupancy rates, market conditions in different geographic regions, and management's plans with respect to its properties. Where management concludes that expected cash flows will not enable the Company to recover the carrying amount of its investments, losses are recorded and asset values are reduced. No such impairments in value existed during 1998, 1997 or 1996.

OPERATING RESULTS. Net income totaled $29,602,000, $21,204,000 and $10,501,000 for 1998, 1997 and 1996, respectively. For 1998, net income increased $8,398,000 over the prior year due primarily to (i) the increase in rental revenues, which was partially offset by the increases in property operations expense and depreciation and amortization expense and (ii) the increase in income from Koger Realty Services, Inc. For 1997, net income increased $10,703,000 over the prior year due primarily to (i) the increase in rental revenues, which was partially offset by the increases in property operations expense and depreciation expense, (ii) the decrease in mortgage and loan interest expense and (iii) the gain on sale or disposition of assets.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. During the year ended December 31, 1998, the Company generated approximately $63.1 million in net cash from operating activities. The Company's primary internal sources of cash are (i) the collection of rents from buildings owned by the Company and (ii) the receipt of management fees paid to the Company in respect of properties managed on behalf of others. As a REIT for Federal income tax purposes, the Company is required to pay out annually, as dividends, 95 percent of its REIT taxable income (which, due to non-cash charges, including depreciation and net operating loss carryforwards, may be substantially less than cash flow). In the past, the Company has paid out dividends in amounts at least equal to its REIT taxable income. The Company believes that its cash provided by operating activities will be sufficient to cover debt service payments and to pay the dividends required to maintain REIT status through 1999.

The level of cash flow generated by rents depends primarily on the occupancy rates of the Company's buildings and changes in rental rates on new and renewed leases and under escalation provisions. As of December 31, 1998, approximately 96 percent of the Company's annualized gross rental revenues were derived from existing leases containing provisions for rent escalations. However, market conditions may prevent the Company from escalating rents under such provisions.

As of December 31, 1998, leases representing approximately 20 percent of the gross annualized rent from the Company's properties, without regard to the exercise of options to renew, were due to expire during 1999. This represents 1,105 leases for space in buildings located in 23 of the 24 Koger Centers or locations in which the Company owns buildings. Certain of these tenants may not renew their leases or may reduce their demand for space. Leases were renewed on approximately 60 percent, 65 percent and 63 percent of the Company's net rentable square feet, which were scheduled to expire during 1998, 1997 and 1996, respectively. For those leases which renewed during 1998, the average rental rate increased from $15.04 to $16.22. However, current market conditions in certain markets may require that rental rates at which leases are renewed or at which vacated space is leased be lower than rental rates under existing leases. Based upon the amount of leases which will expire during 1999 and the competition for tenants in the markets in which the Company operates, the Company has offered, and expects to continue to offer, incentives to certain new and renewal tenants. These incentives may include the payment of tenant improvement costs and, in certain markets, reduced rents during initial lease periods.

The Company continues to benefit from improving economic conditions and reduced vacancy levels for office buildings in many of the metropolitan areas in which the Company owns buildings. The Company believes that the southeastern and southwestern regions of the United States provide significant economic growth potential due to their diverse regional economies, expanding metropolitan areas,

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skilled work force and moderate labor costs. However, the Company cannot predict





whether such economic growth will continue. Cash flow from operations could be reduced if economic growth were not to continue in the Company's markets and if this resulted in lower occupancy rates for the Company's buildings.

Governmental tenants (including the State of Florida and the United States of America) which accounted for 20.6 percent of the Company's leased space as of December 31, 1998, may be subject to budget reductions in times of recession and governmental austerity measures. Consequently, there can be no assurance that governmental appropriations for rents may not be reduced. Additionally, certain of the private-sector tenants, which have contributed to the Company's rent stream, may reduce their current demands, or curtail their future need, for additional office space.

At the end of 1998, the Company had management contracts for the management of 23 commercial office properties. On March 31, 1998, a management agreement to manage 22 commercial office buildings owned by Centoff was automatically extended to March 31, 1999. This management agreement provides that, so long as no default has occurred, the management agreement will be automatically extended from year to year until such time as the management agreement is terminated. The Company earned fees of $2 million from this management agreement during 1998. Another agreement to manage one commercial office building was terminated by the Company during February, 1999. During 1998, the Company earned fees of $91,000 for the management of this building.

INVESTING ACTIVITIES. At December 31, 1998, substantially all of the Company's invested assets were in real properties. Improvements to the Company's existing properties have been financed through internal operations. During 1998, the Company's expenditures for improvements to existing properties increased by approximately $5 million from the prior year, primarily due to increases in expenditures for tenant improvements and building improvements. The Company purchased 20 buildings during 1998.

During 1998, the Company completed the construction of six buildings, which contain 503,300 net rentable square feet. During 1997, the Company completed the construction of two buildings, which contain 101,900 net rentable square feet. The Company has nine buildings under construction, on approximately 59 acres of undeveloped land, which will contain approximately 797,000 net rentable square feet. Expenditures for construction of these nine buildings are expected to total approximately $68.4 million, excluding land and tenant improvement costs.

On January 30, 1998, the Company acquired a building, containing 127,700 net rentable square feet, located in Richmond, Virginia for a purchase price of $16.5 million. On February 1, 1998, the Company acquired a building, containing 19,000 net rentable square feet, located in Jacksonville, Florida for a purchase price of $2.0 million. On March 6, 1998, the Company acquired 14.4 acres of land located in Jacksonville, Florida for a purchase price of $2.3 million. On April 22, 1998, the Company acquired an office and retail complex consisting of (i) four office buildings containing 279,300 net rentable square feet, (ii) a retail development containing 112,600 net rentable square feet and (iii) approximately 23 acres of developable land. These properties were acquired for a purchase price of $58.2 million and are located in Birmingham, Alabama. On May 18, 1998, the Company acquired 15.4 acres of land located in Jacksonville, Florida for a purchase price of $2.68 million. On October 22, 1998, the Company acquired a suburban office park located in Charlotte, North Carolina, for a purchase price of $52.3 million. This transaction was structured as a contribution of the property to a down-REIT partnership (Koger-Vanguard Partners, L.P.), whose general partner is KE. In addition, KE acquired 17.1 acres of land adjacent to this suburban office park for a purchase price of $1.5 million.

During 1997, the Company acquired 11 buildings, containing 717,900 net rentable square feet, for a total purchase price of $74.8 million in seven separate transactions. In addition, the Company acquired 5.9 acres of land for a purchase price of $0.5 million.





During 1997, the Company sold (i) 8.1 acres of unimproved land located in Miami, Florida for approximately $2,907,000, net of selling costs and (ii) 17.2 acres of unimproved land located in Richmond, Virginia for approximately $3,434,000, net of selling costs. During 1996, the Company sold a 30-acre land parcel located in Birmingham, Alabama for $1,263,000, net of selling costs.

FINANCING ACTIVITIES. Historically, the Company's primary external sources of cash have been in the form of bank borrowings, mortgage financings,

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and public and private offerings of equity securities. The proceeds of these financings were used by the Company to acquire buildings or to refinance debt. The Company has a $150 million secured revolving credit facility provided by First Union National Bank of Florida, AmSouth Bank, N.A., Citizens Bank of Rhode Island, Compass Bank and Guaranty Federal Bank.

During 1997, the Company's Board of Directors approved the repurchase of up to one million shares of the Company's common stock (the "Shares") and the Company repurchased 372,600 Shares for approximately $5.75 million. The Company repurchased 35,600 Shares for approximately $583,000 during 1998.

During July 1997, the Company's Board of Directors approved the redemption of warrants outstanding on August 29, 1997 (the "Redemption Date") for $3.81 per warrant. Each warrant gave the holder the right to purchase one Share at a price of $8.00 per share, until the Redemption Date. The Company redeemed 99,871 warrants for $379,000 following the Redemption Date. The remaining warrants were exercised by the holders either on or prior to the Redemption Date.

On March 27, 1998, the Company issued one million shares of its common stock to Wheat First Securities, Inc. for an aggregate sales price of $20.2 million. The Company applied approximately $15 million of the proceeds from this sale to the repayment of indebtedness with an average interest rate of approximately 7.94 percent. During December 1997, the Company completed a public offering of 3.5 million shares of its common stock, three million shares of which were sold in an underwritten offering for an aggregate sales price of $60.75 million ($20.25 per share less an underwriting discount of $1.11 per share), and 500,000 of such shares were sold to AREIF II Realty Trust, Inc., an affiliate of Apollo Real Estate Fund II, L.P. (together referred to as "Apollo"), for an aggregate sales price of $9.57 million ($19.14 per share). The Company applied approximately $51.6 million of the proceeds from this sale to the repayment of indebtedness with an average interest rate of approximately 8.6 percent. During October 1996, the Company completed a private placement of three million shares of its common stock to an affiliate of Apollo for an aggregate sales price of $43.5 million. The Company applied the proceeds from this sale to the repayment of indebtedness with an average interest rate of approximately 8 percent.

During December 1996, the Company closed on a $190 million non-recourse loan with Northwestern Mutual Life Insurance Company ("Northwestern"), which is secured by 10 office parks. This loan is divided into (i) a tranche in the amount of $100.5 million with a 10 year maturity and an average interest rate of 8.19 percent and (ii) a tranche in the amount of $89.5 million with a maturity of 12 years and an interest rate of 8.33 percent. Amortization with respect to this indebtedness is based on equal monthly installments over a 25-year amortization period. This indebtedness requires the Company to maintain certain financial ratios.

In conjunction with the acquisition of certain office buildings during 1998, the Company assumed mortgage loans with outstanding balances of $30.7 million and a weighted average interest rate of 8.09 percent. Amortization with respect to this indebtedness is based on an equal monthly installment over 25 year amortization periods.

During December 1998, the Company increased its secured revolving credit facility from $100 million to $150 million. This facility provides for monthly interest payments, requires the Company to maintain certain financial ratios and matures in December 2001.





Loan maturities and normal amortization of mortgages and loans payable are expected to total approximately $3.3 million over the next twelve months. The Company believes that these obligations will be paid from cash provided by operations or from current cash balances. Significant maturities of the Company's mortgages and loans payable do not begin to occur until 2001.

At December 31, 1998, the Company had 61 buildings (containing approximately 2.15 million net rentable square feet) which were unencumbered.

In order to generate funds sufficient to make principal payments in respect of indebtedness of the Company over the long term, as well as necessary capital and tenant acquisition expenditures, the Company will be required to successfully refinance its indebtedness or procure additional equity capital. However, there can be no assurance that any such refinancing or equity financing will be achieved or will generate adequate funds on a timely basis for these purposes. If additional funds are raised by issuing equity securities, further dilution to existing shareholders may result. Unfavorable conditions in the financial markets, the degree of leverage of the Company and various other factors may limit the ability of the Company to successfully undertake any such financings, and no assurance can be given as to the availability of alternative sources of funds. The Company has filed shelf registration statements with

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respect to the issuance of up to $300 million of its common and/or preferred stock. The Company has issued $91.6 million of its common stock under such registration statements.

In addition, in the event the Company is unable to generate sufficient funds both to meet principal payments in respect of its indebtedness and to satisfy distribution requirements of 95 percent of annual REIT taxable income to its shareholders, the Company may be unable to qualify as a REIT. In such an event, the Company (i) will incur federal income taxes and perhaps penalties, (ii) if the Company is then paying dividends, may be required to decrease any dividend payments to its shareholders, and (iii) the market price of the Company's common stock may decrease. The Company would also be prohibited from requalifying as a REIT for five years.

IMPACT OF INFLATION

The Company may experience increases in its expenses as a result of inflation; however, the amount of such increases cannot be accurately determined. The Company's exposure to inflationary cost increases in property level expenses is reduced by escalation clauses which are included in most leases. However, market conditions may prevent the Company from escalating rents. Inflationary pressure may increase operating expenses, including labor and energy costs (and, indirectly, real estate taxes) above expected levels, at a time when it may not be possible to increase lease rates to offset such higher operating expenses. In addition, inflation can have secondary effects upon occupancy rates by decreasing the demand for office space in many of the markets in which the Company operates. As of December 31, 1998, 96 percent of the Company's annualized rentals were subject to leases having annual escalation clauses as described under "Properties" above. As of December 31, 1997 and 1996, 93 percent and 94 percent, respectively, of the Company's annualized rentals were subject to leases having annual escalation clauses.

Historically, inflation has often caused increases in the value of income-producing real estate through higher rentals. The Company, however, can provide no assurance that inflation will increase the value of its properties in the future, and, in fact, the rate of inflation over recent years has been considerably below that which has been experienced previously.

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR PURPOSE OF "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the Act.





This Annual Report on Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets and a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate. Accordingly, the Company hereby identifies the following important factors which could cause the Company's actual performance and financial results to differ materially from any results which might be projected, forecast, estimated or budgeted by the Company.

REAL ESTATE FINANCING RISKS

EXISTING DEBT. The Company is subject to risks normally associated with debt financing, including (a) the risk that the Company's cash flow will be insufficient to meet required payments of principal and interest, (b) the risk that the existing debt in respect of the Company's properties (which in substantially all cases will not have been fully amortized at maturity) will not be able to be refinanced and (c) the risk that the terms of any refinancing of any existing debt will not be as favorable as the terms of such existing debt. The Company currently has outstanding debt of approximately $307.9 million, all of which is secured by certain of the Company's properties. Approximately $236 million of such debt will mature before 2008, with the majority of the remaining balance maturing in 2009. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, the Company expects that its cash flow will not be sufficient to repay all such maturing debt. Furthermore, if prevailing interest rates or other factors at the time of refinancing (such as the reluctance of

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lenders to make commercial real estate loans) result in higher interest rates upon refinancing than the interest rates on the existing debt, the interest expense relating to such refinanced debt would increase, which would adversely affect the Company's cash flow and the amount of distributions the Company would be able to make to its shareholders. If the Company has mortgaged a property to secure payment of debt and the Company is unable to meet the mortgage payments, then the mortgagee may foreclose upon, or otherwise take control of, such property, with a consequent loss of income and asset value to the Company.

RISK OF RISING INTEREST RATES AND VARIABLE RATE DEBT. The Company currently has a $150 million secured revolving credit facility with variable interest rates. The Company may incur additional variable rate debt in the future. Increases in interest rates on such debt could increase the Company's interest expense, which would adversely affect the Company's cash flow and its ability to pay distributions to its shareholders.

EXISTING LEVERAGE; NO LIMITATION ON DEBT

As of December 31, 1998, the debt to total market capitalization ratio of the Company was approximately 39 percent. The Company's policy regarding this ratio (i.e., total consolidated debt as a percentage of the sum of the market value of issued and outstanding capital stock plus total consolidated debt) is not subject to any limitation in the organizational documents of the Company. Accordingly, the Board of Directors could establish a policy and decide to borrow on a case-by-case or other basis, which would increase the Company's debt to total market capitalization ratio. If this action were taken, the Company could become more highly leveraged, resulting in an increase in debt service that (a) could adversely affect the Company's cash flow and, consequently, the amount of cash available for distribution to shareholders and (b) could increase the risk of default on the Company's debt.

For purposes of establishing and evaluating its debt policy, the Company measures its leverage by reference to the total market capitalization of the Company rather than by reference to the book value of its assets. The Company has used total market capitalization because it believes that the book value of its assets (which to a large extent is comprised of the depreciated value of real property, the Company's primary tangible asset) does not accurately reflect its ability to borrow and to meet debt service requirements. The market capitalization of the Company, however, is more variable than book value, and does not necessarily reflect the fair market value of the underlying assets of the Company at all times. The Company also





considers factors other than its market capitalization in making decisions regarding the incurrence of indebtedness, such as the purchase price of properties to be acquired with debt financing, the estimated market value of its properties upon refinancing and the ability of particular properties, and the Company as a whole, to generate cash flow to cover expected debt service.

GEOGRAPHIC CONCENTRATION

The Company's revenues and the value of its properties may be affected by a number of factors, including the regional and local economic climates of the metropolitan areas in which the Company's buildings are located (which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and regional and local real estate conditions in such areas (such as oversupply of, or reduced demand for, office and other competing commercial properties). All of the Company's properties are located in the southeastern and southwestern United States. The Company's performance and its ability to make distributions to its shareholders are, therefore, dependent on economic conditions in these market areas. The Company's historical growth has occurred during periods when the economy in the southeastern and southwestern United States has out-performed the national economy. There can be no assurance as to the continued growth of the economy in the southeastern and southwestern United States or the future growth rate of the Company.

RENEWAL OF LEASES AND RELETTING OF SPACE

The Company is subject to the risks that upon expiration of leases for space located in its buildings (a) such leases may not be renewed, (b) such space may not be relet or (c) the terms of renewal or reletting (taking into account the cost of required renovations) may be less favorable than current lease terms. Leases on a total of 20.7 percent and 17.0 percent of the total net rentable square feet leased in the Company's buildings will expire in 1999 and 2000, respectively. If the Company is unable to promptly relet, or renew the leases for, all or a substantial portion of the space located in its buildings, or if the rental rates upon such renewal or reletting are significantly lower than expected rental rates, or if the Company's reserves for these purposes prove inadequate, then the Company's cash flow and its ability to make expected distributions to its shareholders may be adversely affected.

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REAL ESTATE INVESTMENT RISKS

GENERAL RISKS. Real property investments are subject to varying degrees of risk. The yields available from equity investments in real estate depend in large part on the amount of income generated and expenses incurred. If the Company's properties do not generate revenues sufficient to meet operating expenses, including current levels of debt service, tenant improvements, leasing commissions and other capital expenditures, the Company may have to borrow additional amounts to cover fixed costs and the Company's cash flow and its ability to make distributions to its shareholders will be adversely affected. The Company must obtain external financing to meet future debt maturities.

The Company's net revenues and the value of its properties may be adversely affected by a number of factors, including the national, regional and local economic climates; regional and local real estate conditions; the perceptions of prospective tenants as to the attractiveness of the property; the ability of the Company to provide adequate management, maintenance and insurance; and increased operating costs (including real estate taxes and utilities). In addition, real estate values and income from properties are also affected by such factors as applicable laws, including tax laws, interest rate levels and the availability of financing.

ILLIQUIDITY OF REAL ESTATE. Equity real estate investments are relatively illiquid. Such illiquidity will tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions.

COMPETITION. Numerous office buildings compete with the Company's buildings in attracting tenants to lease space. Some of these competing buildings are newer, better located or better capitalized than some of the Company's buildings. Moreover, the Company believes that major national or regional commercial property developers will continue to seek





development opportunities in the southeastern and southwestern United States. These developers may have greater financial resources than the Company. The number of competitive commercial properties in a particular area could have a material adverse effect on the Company's ability to lease space in its buildings or at newly developed or acquired properties and the rents charged.

CHANGES IN LAWS. Because increases in income, service or transfer taxes are generally not passed through to tenants under leases, such increases may adversely affect the Company's cash flow and its ability to make distributions to its shareholders. The Company's properties are also subject to various federal, state and local regulatory requirements, such as requirements of the Americans with Disabilities Act (the "ADA") and state and local fire and life safety requirements. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. The Company believes that its properties are currently in compliance with all such regulatory requirements. However, there can be no assurance that these requirements will not be changed or that new requirements will not be imposed which would require significant unanticipated expenditures by the Company and could have an adverse effect on the Company's cash flow and expected distributions.

UNINSURED LOSS. The Company presently carries comprehensive liability, fire, flood (where appropriate), extended coverage and rental loss insurance with respect to its properties, with policy specifications and insured limits customary for similar properties. There are, however, certain types of losses (such as from wars) that may be either uninsurable or not economically insurable. Should an uninsured loss or a loss exceeding policy limits occur, the Company could lose both its capital invested in, and anticipated profits from, one or more of its properties.

BANKRUPTCY AND FINANCIAL CONDITION OF TENANTS. At any time, a tenant of the Company's buildings may seek the protection of the bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available for distribution by the Company. No assurance can be given that tenants will not file for bankruptcy protection in the future or, if any tenants file, that they will affirm their leases and continue to make rental payments in a timely manner. In addition, a tenant from time to time may experience a downturn in its business which may weaken its financial condition and result in its failure to make rental payments when due. If a tenant's lease is not affirmed following bankruptcy or if a tenant's financial condition weakens, the Company's income may be adversely affected.

AMERICANS WITH DISABILITIES ACT COMPLIANCE. Under the ADA, all public accommodations and commercial facilities are required to meet certain federal requirements relating to access and use by disabled persons. These requirements became effective in 1992. Compliance with the requirements of the ADA could require removal of access barriers and non-compliance could result in imposition

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of fines by the U.S. Government or an award of damages to private litigants. Although the Company believes that its properties are substantially in compliance with these requirements, the Company may incur additional costs to comply with the ADA. Although the Company believes that such costs will not have a material adverse effect on the Company, if required changes involve a greater expenditure than the Company currently anticipates, the Company's ability to make distributions to its shareholders could be adversely affected.

RISKS INVOLVED IN PROPERTY OWNERSHIP THROUGH PARTNERSHIP AND JOINT VENTURES. Although the Company owns fee simple interests in all but 13 of its properties, in the future the Company could, if then permitted by the covenants in its loan agreements and its financial position, participate with other entities in property ownership through partnerships or joint ventures. KE is currently the general partner of Koger-Vanguard Partners, L.P., which owns 13 office buildings. Partnership or joint venture investments may, under certain circumstances, involve risks not otherwise present in property ownership, including the possibility that (a) the Company's partners or co-venturers might become bankrupt, (b) such partners or co-venturers might at any time have economic or other business interests or goals which are inconsistent with the business interests or goals of the Company, and (c) such partners or co-venturers may be in a position to take action contrary to the instructions or the requests of the Company or contrary to the Company's policies or objectives, including the Company's policy to maintain its qualification as a REIT. The Company will, however, seek to maintain sufficient control of such participants or joint ventures to permit the Company's business objectives to be achieved. There is no limitation under the Company's organizational documents as to the amount of available funds that may be invested in partnerships or joint ventures.





IMPACT OF INFLATION. The Company may experience increases in its expenses, including debt service, as a result of inflation. The Company's exposure to inflationary cost increases in property level expenses is reduced by escalation clauses which are included in most of its leases. However, market conditions may prevent the Company from escalating rents. Inflationary pressure may increase operating expenses, including labor and energy costs (and, indirectly, real estate taxes) above expected levels at a time when it may not be possible for the Company to increase lease rates to offset such higher operating expenses. In addition, inflation can have secondary effects upon occupancy rates by decreasing the demand for office space in many of the markets in which the Company operates.

Although, inflation has historically often caused increases in the value of income-producing real estate through higher rentals, the Company can provide no assurance that inflation will increase the value of its properties in the future and, in fact, the rate of inflation over recent years has been considerably below that which has been experienced previously.

RISK OF DEVELOPMENT, CONSTRUCTION AND ACQUISITION ACTIVITIES

Within the constraints of its policy concerning leverage, the Company has and will continue to develop and construct office buildings, particularly on its undeveloped land. Risks associated with the Company's development and construction activities, including activities relating to its undeveloped land, may include: abandonment of development opportunities; construction costs of a property exceeding original estimates and possibly making the property uneconomical; insufficient occupancy rates and rents at a newly completed property to make the property profitable; unavailability of financing on favorable terms for development of a property; and the failure to complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs. In addition, new development activities, regardless of whether or not they are ultimately successful, typically require a substantial portion of management's time and attention. Development activities are subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.

The Company will continue to acquire office buildings. Acquisitions of office buildings entail risks that investments will fail to perform in accordance with expectations. Estimates of the cost of improvements to bring an acquired building up to standards established for the market position intended for such building may prove inaccurate. In addition, there are general investment risks associated with any new real estate investment.

The Company anticipates that any future developments and acquisitions would be financed through a combination of internally generated cash, equity investments and secured or unsecured financing. If new developments are financed through construction loans, there is a risk that, upon completion of construction, permanent financing for newly developed properties may not be available or may be available only on disadvantageous terms.

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CHANGES IN POLICIES WITHOUT STOCKHOLDER APPROVAL

The investment, financing, borrowing and distribution policies of the Company, as well as its policies with respect to all other activities, including growth, debt, capitalization and operations, are determined by the Board of Directors. Although the Board of Directors has no present intention to do so, these policies may be amended or revised at any time and from time to time at the discretion of the Board of Directors without a vote of the shareholders of the Company. A change in these policies could adversely affect the financial condition or results of operations of the Company or the market price of the Common Stock.

LIMITATIONS OF REIT STATUS ON BUSINESS OF SUBSIDIARIES

Certain requirements for REIT qualification may in the future limit the Company's ability to increase fee development, management and leasing operations conducted, and related services offered, by the Company's subsidiaries without jeopardizing the Company's qualification as a REIT.





ADVERSE CONSEQUENCES OF FAILURE TO QUALIFY AS A REIT

The Company believes it has operated so as to qualify as a REIT under the Internal Revenue Code since its inception in 1988. Although management of the Company intends that the Company continue to operate so as to qualify as a REIT, no assurance can be given that the Company will remain qualified as a REIT. Qualification as a REIT involves the application and satisfaction of highly technical and complex Code requirements for which there are only limited judicial and administrative interpretations. Uncertainty in the application of such requirements, as well as circumstances not entirely within the Company's control, may affect the Company's ability to qualify as a REIT. In addition, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. The Company, however, is not aware of any pending tax legislation that would adversely affect the Company's ability to operate as a REIT.

POSSIBLE ENVIRONMENTAL LIABILITIES

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at such property and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. Such laws typically impose clean-up responsibility and liability without regard to whether the owner knew, or caused the presence, of the contaminants, and the liability under such laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The costs of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate the contamination on such property, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral. Any person who arranges for the disposal or treatment of hazardous or toxic substances at a disposal or treatment facility also may be liable for the costs of removal or remediation of a release of hazardous or toxic substances at such disposal or treatment facility, whether or not such facility is owned or operated by such person. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs that it incurs in connection with the contamination. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos-containing materials ("ACM") when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for release of ACM and may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with ACM. In connection with its ownership and operation of its properties, the Company may be potentially liable for such costs. All ACM in the Company's buildings has been found to be in good condition and non-friable, and should not present a risk as long as it continues to be properly managed.

The Company's environmental assessments of its properties have not revealed any environmental liability that the Company believes would have a material adverse effect on its business, assets or results of operations taken as a whole, nor is the Company aware of any such material environmental liability. Nevertheless, it is possible that the Company's assessments do not

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reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. Moreover, there can be no assurance that future laws, ordinances or regulations will not impose any material environmental liability or the current environmental condition of the Company's properties will not be affected by tenants, by the condition of land or operations in the vicinity of such properties (such as the presence of underground storage tanks), or by third parties unrelated to the Company.





EFFECT OF MARKET INTEREST RATES ON PRICE OF COMMON STOCK

One of the factors that will influence the market price of the Company's common stock in public markets will be the annual dividend yield on the share price reflected by dividend distributions by the Company. An increase in market interest rates could reduce cash available for distribution by the Company to its shareholders and, accordingly, adversely affect the market price of the common stock.

INFORMATION SYSTEMS AND THE YEAR 2000

The inability of computers, software and other equipment utilizing microprocessors to recognize and properly process data fields containing a two-digit year is commonly referred to as the Year 2000 Compliance issue. As the year 2000 approaches, such systems may be unable to accurately process certain date-based information. All significant accounting applications used by the Company are packaged software products licensed from various computer software companies. During 1998, the Company began implementing its existing plan to upgrade its significant accounting applications from DOS-based software to Windows-based software. The Company has confirmed that its Windows-based software applications are Year 2000 Compliant. The project to upgrade these applications to Windows-based software will be completed by September 30, 1999.

The Company has also completed its initial assessment of its critical building operating systems (HVAC, lighting, security and elevators) regarding Year 2000 Compliance. This assessment determined that the costs of dealing with timing devices which are not Year 2000 Compliant would not be material to the Company's financial position or results of operations. The Company is continuing to inventory all building operating systems to confirm the Company's assessment of these devices with the applicable manufacturers.

The total cost to the Company of these Year 2000 Compliance activities has not been and is not anticipated to be material to its financial position or results of operations in any given year. These costs and the date on which the Company plans to complete these application conversions are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ from those plans.

Due to the general uncertainty inherent in the Year 2000 Compliance issue, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and tenants, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Company is exposed to the potential risk that its vendors and service providers may not be Year 2000 compliant. However, this risk is reduced by the availability of multiple vendors in the 15 cities in which the Company owns properties. Failures by utility vendors to provide regulated services would have the greatest impact on the Company's normal business operations. For this reason, the Company has requested information from each of its utility vendors concerning their Year 2000 readiness. Currently the Company has received responses from approximately 95% of its utility vendors. All respondents have acknowledged that they are currently working on the problem and many have outlined their respective plans of implementation. The Company is exposed to the risk that its tenants could be impacted by the Year 2000 Compliance issue such that they would be unable to pay their rent on time. However, the Company has a diverse tenant base and its success is not closely tied to the success of any particular tenant. Also, the Company's leases with its tenants protect the Company in the event of tenant default and requires the payment of delinquent fees on late rental payments. The Company does not expect any adverse effects caused by its accounting and property management systems that would affect the Company's ability to meet its financial and reporting requirements.

The Company has developed contingency plans for dealing with timing devices in building operating systems, which are not Year 2000 compliant, in case these devices are not replaced by the end of 1999. Testing of these contingency plans



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and decisions whether implementation of a contingency plan is required will be completed by September 30, 1999. The Company has sufficient internal resources and personnel to implement any required contingency plans related to its building operating systems.

ADDITIONAL INFORMATION

For additional disclosure of risk factors to which the Company is subject, see the other sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations."





ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES


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| Consolidated Financial Statements: | |
| Consolidated Balance Sheets as of December 31, 1998 and 1997 | 27 |
| Consolidated Statements of Operations for Each of the Three Years in the Period Ended December 31, 1998 | 28 |
| Consolidated Statements of Changes in Shareholders' Equity for Each of the Three Years in the Period Ended December 31, 1998 | 29 |
| Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1998 | 30 |
| Notes to Consolidated Financial Statements for Each of the Three Years in the Period Ended December 31, 1998 | 31 |
| Financial Statement Schedules: | |
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| Schedule III - Real Estate and Accumulated Depreciation as of December 31, 1998 | 43 |






INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Koger Equity, Inc. and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 8. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

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assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Koger Equity, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Jacksonville, Florida
February 12 , 1999





KOGER EQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1998 AND 1997
(IN THOUSANDS EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> |
|---|---|---|
| ASSETS | | |
| Real estate investments: | | |
| Operating properties: | | |
| Land | $ 137,047 | $ 111,697 |
| Buildings | 731,558 | 567,332 |
| Furniture and equipment | 3,578 | 2,220 |
| Accumulated depreciation | (129,682) | (104,700) |
| Operating properties - net | 742,501 | 576,549 |
| Properties under construction: | | |
| Land | 11,318 | 8,978 |
| Buildings | 31,562 | 18,608 |
| Undeveloped land held for investment | 19,272 | 13,249 |
| Undeveloped land held for sale, net of allowance | 1,263 | 1,512 |
| Cash and temporary investments | 4,827 | 16,955 |
| Accounts receivable, net of allowance for uncollectible accounts of $436 and $250 | 6,158 | 5,646 |
| Investment in Koger Realty Services, Inc. | 1,661 | 472 |
| Cost in excess of fair value of net assets acquired, net of accumulated amortization of $855 and $685 | 1,700 | 1,870 |
| Other assets | 14,733 | 12,258 |
| TOTAL ASSETS | $ 834,995 | $ 656,097 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Mortgages and loans payable | $ 307,903 | $ 181,963 |
| Accounts payable | 12,139 | 8,802 |
| Accrued real estate taxes payable | 4,407 | 3,294 |
| Accrued liabilities - other | 9,288 | 6,623 |
| Dividends payable | 7,971 | 6,352 |
| Advance rents and security deposits | 5,432 | 4,801 |
| Total Liabilities | 347,140 | 211,835 |
| Minority interest | 23,092 | |
| Commitments and contingencies (Notes 2 and 10) | | |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value; 50,000,000 shares authorized; issued: none | | |
| Common stock, $.01 par value; 100,000,000 shares authorized; issued: 28,559,751 and 28,389,195 shares; outstanding: 26,571,068 and 25,406,792 shares | 286 | 284 |
| Capital in excess of par value | 454,988 | 441,451 |
| Retained earnings | 30,020 | 30,947 |
| Treasury stock, at cost; 1,988,683 and 2,982,403 shares | (20,531) | (28,420) |

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| | | |
|---|---|---|
| Total Shareholders' Equity | 464,763 | 444,262 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 834,995 | $ 656,097 |

</TABLE>

See Notes to Consolidated Financial Statements.





KOGER EQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 1998
(IN THOUSANDS EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> | 1996 <C> |
|---|---|---|---|
| REVENUES | | | |
| Rental | $ 133,076 | $ 108,924 | $ 98,342 |
| Other rental services | 587 | 577 | 463 |
| Management fees | 2,277 | 2,637 | 2,682 |
| Interest | 446 | 1,274 | 1,951 |
| Income from Koger Realty Services, Inc. | 1,696 | 577 | 342 |
| Gain on note to Southeast | | | 292 |
| Total revenues | 138,082 | 113,989 | 104,072 |
| EXPENSES | | | |
| Property operations | 53,719 | 44,453 | 41,597 |
| Depreciation and amortization | 28,381 | 24,073 | 21,127 |
| Mortgage and loan interest | 16,616 | 16,517 | 18,701 |
| General and administrative | 6,953 | 6,374 | 6,623 |
| Direct cost of management fees | 1,368 | 1,896 | 1,884 |
| Other | 383 | 413 | 941 |
| Recovery of loss on land held for sale | | (379) | |
| Total expenses | 107,420 | 93,347 | 90,873 |
| INCOME BEFORE GAIN (LOSS) ON SALE OR DISPOSITION OF ASSETS, INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM | 30,662 | 20,642 | 13,199 |
| Gain (loss) on sale or disposition of assets | 35 | 1,955 | (497) |
| INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM | 30,697 | 22,597 | 12,702 |
| Income taxes | 956 | 935 | 815 |
| INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM | 29,741 | 21,662 | 11,887 |
| Minority interest | 139 | | |
| INCOME BEFORE EXTRAORDINARY ITEM | 29,602 | 21,662 | 11,887 |
| Extraordinary loss on early retirement of debt | | 458 | 1,386 |
| NET INCOME | $ 29,602 | $ 21,204 | $ 10,501 |
| EARNINGS PER SHARE: | | | |
| Basic- | | | |
| Income before extraordinary item | $ 1.13 | $ 1.01 | $ 0.64 |
| Extraordinary loss | | (0.02) | (0.07) |
| Net Income | $ 1.13 | $ 0.99 | $ 0.57 |
| Diluted - | | | |
| Income before extraordinary item | $ 1.10 | $ 0.96 | $ 0.61 |
| Extraordinary loss | | (0.02) | (0.07) |
| Net Income | $ 1.10 | $ 0.94 | $ 0.54 |
| WEIGHTED AVERAGE SHARES: | | | |
| Basic | 26,294 | 21,374 | 18,523 |

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| Diluted | 26,901 | 22,495 | 19,500 |
|---|---|---|---|

</TABLE>

See Notes to Consolidated Financial Statements.





KOGER EQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 1998
(IN THOUSANDS)

<TABLE>
<CAPTION>

| | COMMON STOCK | | CAPITAL IN EXCESS | | | | TOTAL SHARE- |
|---|---|---|---|---|---|---|---|
| | SHARES ISSUED | PAR VALUE | OF PAR VALUE | WARRANTS | RETAINED EARNINGS | TREASURY STOCK | HOLDERS' EQUITY |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| BALANCE, DECEMBER 31, 1995 | 20,477 | $ 205 | $ 318,609 | $ 2,250 | $13,210 | $(23,577) | $310,697 |
| Common stock sold | 3,000 | 30 | 42,592 | | | 126 | 42,748 |
| Warrants exercised | 3 | | 33 | (7) | | | 26 |
| Options exercised | 57 | 1 | 519 | | | (47) | 473 |
| Stock appreciation rights exercised | 23 | | 270 | | | | 270 |
| 401(k) Plan contribution | | | 104 | | | 361 | 465 |
| Dividends declared | | | | | (1,045) | | (1,045) |
| Net income | | | | | 10,501 | | 10,501 |
| BALANCE, DECEMBER 31, 1996 | 23,560 | 236 | 362,127 | 2,243 | 22,666 | (23,137) | 364,135 |
| Common stock sold | 3,500 | 35 | 66,439 | | | 166 | 66,640 |
| Treasury stock reissued | | | 150 | | | 128 | 278 |
| Treasury stock purchased | | | | | | (5,750) | (5,750) |
| Warrants redeemed | | | | (236) | (143) | | (379) |
| Warrants exercised | 994 | 10 | 9,945 | (2,007) | | | 7,948 |
| Options exercised | 335 | 3 | 2,542 | | | (22) | 2,523 |
| 401(k) Plan contribution | | | 248 | | | 195 | 443 |
| Dividends declared | | | | | (12,780) | | (12,780) |
| Net income | | | | | 21,204 | | 21,204 |
| BALANCE, DECEMBER 31, 1997 | 28,389 | 284 | 441,451 | 0 | 30,947 | (28,420) | 444,262 |
| Common stock sold | | | 12,104 | | | 8,430 | 20,534 |
| Treasury stock purchased | | | | | | (583) | (583) |
| Options exercised | 171 | 2 | 1,307 | | | (34) | 1,275 |
| 401(k) Plan contribution | | | 126 | | | 76 | 202 |
| Dividends declared | | | | | (30,529) | | (30,529) |
| Net income | | | | | 29,602 | | 29,602 |
| BALANCE, DECEMBER 31, 1998 | 28,560 | $ 286 | $ 454,988 | $ 0 | $ 30,020 | $(20,531) | $464,763 |

</TABLE>

See Notes to Consolidated Financial Statements.





KOGER EQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 1998
(IN THOUSANDS)

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| | 1998 | 1997 | 1996 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income | $ 29,602 | $ 21,204 | $ 10,501 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 28,381 | 24,073 | 21,127 |
| Income from Koger Realty Services, Inc. | (1,696) | (577) | (342) |
| Provision for uncollectible accounts | 300 | 224 | 50 |
| Minority interest | 139 | | |
| (Gain) Loss on sale or disposition of assets | (35) | (1,955) | 497 |
| Loss on early retirement of debt | | 458 | 1,386 |
| Recovery of loss on land held for sale | | (379) | |
| Gain on unsecured note to Southeast | | | (292) |
| Accrued interest added to principal | | | 112 |
| Amortization of mortgage discounts | | 86 | 196 |
| Changes in assets and liabilities: | | | |
| Increase in accounts payable, accrued liabilities and other liabilities | 8,095 | 7,906 | 3,542 |
| Increase in accounts receivable and other assets | (1,735) | (842) | (829) |
| Net cash provided by operating activities | 63,051 | 50,198 | 35,948 |
| INVESTING ACTIVITIES | | | |
| Property acquisitions | (83,337) | (75,774) | |
| Building construction expenditures | (53,137) | (26,099) | (930) |
| Tenant improvements to first generation space | (5,020) | (701) | |
| Tenant improvements to existing properties | (11,655) | (7,513) | (7,873) |
| Building improvements | (4,267) | (3,116) | (2,795) |
| Energy management improvements | (283) | (572) | (1,900) |
| Deferred tenant costs | (2,702) | (1,997) | (1,862) |
| Additions to furniture and equipment | (1,358) | (651) | (128) |
| Dividends received from Koger Realty Services, Inc. | 507 | 364 | 490 |
| Proceeds from sale of assets | 35 | 6,244 | 1,241 |
| Proceeds from note to Southeast | | | 887 |
| Net cash used in investing activities | (161,217) | (109,815) | (12,870) |
| FINANCING ACTIVITIES | | | |
| Principal payments on mortgages and loans | (40,749) | (77,749) | (228,090) |
| Dividends paid | (28,910) | (7,473) | |
| Treasury stock purchased | (583) | (5,750) | |
| Warrants redeemed | | (379) | |
| Proceeds from mortgages and loans | 136,002 | 56,300 | 175,900 |
| Proceeds from sales of common stock | 20,534 | 66,640 | 42,748 |
| Proceeds from exercise of warrants and stock options | 1,128 | 10,252 | 376 |
| Financing costs | (1,384) | (984) | (3,712) |
| Net cash provided by (used in) financing activities | 86,038 | 40,857 | (12,778) |
| Net (decrease) increase in cash and cash equivalents | (12,128) | (18,760) | 10,300 |
| Cash and cash equivalents - beginning of year | 16,955 | 35,715 | 25,415 |
| Cash and cash equivalents - end of year | $ 4,827 | $ 16,955 | $ 35,715 |

See Notes to Consolidated Financial Statements.





KOGER EQUITY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

ORGANIZATION. Koger Equity, Inc. ("KE") was incorporated in Florida on June 21, 1988. KE has two wholly-owned subsidiaries which are Southeast Properties Holding Corporation ("Southeast"), a Florida corporation, and Koger Real Estate Services, Inc. ("KRES"), a Florida corporation. Koger-Vanguard Partners, L.P. ("KVP") is a Delaware limited partnership, for which KE is the general partner.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements

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include the accounts of KE, its wholly-owned subsidiaries and KVP (the "Company"). All material intercompany accounts have been eliminated in consolidation.

INVESTMENT IN KOGER REALTY SERVICES, INC. Koger Realty Services, Inc., a Delaware corporation ("KRSI"), provides leasing and property management services to owners of commercial office buildings. The Company owns all of the preferred stock of KRSI, which preferred stock represents at least 95 percent of the economic value of KRSI. Such preferred stock is non-voting and is not convertible into the common stock of KRSI while held by the Company. The Company has accounted for its investment in the preferred stock of KRSI using the equity method.

REAL ESTATE INVESTMENTS. Operating properties, properties under construction, furniture and equipment, and undeveloped land held for investment are stated at cost less accumulated depreciation. Undeveloped land held for sale is carried at the lower of cost or fair value less selling costs.

Periodically, management reviews its portfolio of operating properties, undeveloped land held for investment and related goodwill and in those instances where properties have suffered an impairment in value, the properties and related goodwill will be reduced to their fair value. This review includes a quarterly analysis of occupancy levels and rental rates for the Company's properties in order to identify properties which may have suffered an impairment in value. Management prepares estimates of future cash flows for these properties to determine whether the Company will be able to recover its investment. In making such estimates, management considers the conditions in the commercial real estate markets in which the properties are located, current and expected occupancy rates, current and expected rental rates, and expected changes in operating costs. As of December 31, 1998, there were no such impairments in value. Maintenance and repairs are charged to operations. Acquisitions, additions, and improvements are capitalized.

MINORITY INTEREST. On October 22, 1998, KE acquired a suburban office park for a purchase price of $52.3 million. The transaction was structured as a contribution of the property to KVP in exchange for limited partner units valued at $22.95 million. In connection with this transaction, KVP assumed $22.2 million of debt and received a contribution of $7.2 million from KE in exchange for general partner interests. The limited partner units are entitled to a cumulative preferred return, which approximates the average dividend rate on KE's shares. In addition, the limited partner units carry with them the right to redeem the units for common shares of KE on a one-unit-for-one-share basis or, at the option of KE, the units may be redeemed for cash. KE has reported KVP's assets, liabilities and operations in its financial statements on the consolidated basis. The limited partnership units and earnings thereon are reported as minority interests.

DEPRECIATION AND AMORTIZATION. The Company uses the straight-line method for depreciation and amortization. Acquisition costs, building improvements and tenant improvements are depreciated over the periods benefited by the expenditures which range from 3 to 40 years. Deferred tenant costs (leasing commissions and tenant relocation costs) are amortized over the term of the related leases. Deferred financing costs are amortized over the terms of the related agreements. Cost in excess of fair value of net assets acquired is being amortized over 15 years.





REVENUE RECOGNITION. Rentals are generally recognized as revenue over the lives of leases according to provisions of the lease agreements. However, the straight-line basis, which averages annual minimum rents over the terms of leases, is used to recognize minimum rental revenues under leases which provide for material varying rents over their terms. For 1998, 1997 and 1996, the recognition of rental revenues on this basis for applicable leases increased rental revenues by $1,335,000, $454,000 and $114,000, respectively, over the amount which would have been recognized based upon the contractual provisions of these leases. Interest revenue is recognized on the accrual basis for interest-earning investments.

FEDERAL INCOME TAXES. The Company is qualified and has elected tax treatment as a real estate investment trust under the Internal Revenue Code (a "REIT"). Accordingly, the Company distributes at least 95 percent of its REIT taxable income to its shareholders. Since the Company had no REIT taxable income in 1996, no distributions to shareholders were made. To the extent that the Company pays dividends equal to 100 percent of REIT taxable income, the earnings of the Company are taxed at the shareholder level. However, the use of net operating loss carryforwards, which may reduce REIT taxable income to zero, are limited for alternative minimum tax purposes.

EARNINGS PER COMMON SHARE. Basic earnings per common share has been computed based on the weighted average number of shares of common stock outstanding for each period. Diluted earnings per common share is similar to basic earnings per share except that the weighted average number of common

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shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares (options and warrants) had been issued. The treasury stock method is used to calculate dilutive shares which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options and warrants assumed to be exercised. Following is a reconciliation of number of shares (in thousands) used in the computation of basic and diluted earnings per share.

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Weighted average number of common shares outstanding - Basic | 26,294 | 21,374 | 18,523 |
| Effect of dilutive securities: | | | |
| Stock Options | 607 | 736 | 536 |
| Warrants | | 385 | 441 |
| Adjusted common shares - Diluted | 26,901 | 22,495 | 19,500 |

FAIR VALUE OF FINANCIAL INSTRUMENTS. The Company believes that the carrying amount of its financial instruments (temporary investments, accounts receivable, accounts payable, and mortgages and loans payable) is a reasonable estimate of fair value of these instruments.

STATEMENTS OF CASH FLOWS. Cash in excess of daily requirements is invested in short-term monetary securities. Such temporary cash investments have an original maturity of less than three months and are deemed to be cash equivalents for purposes of the statements of cash flows.

During 1996, the Company contributed 43,804 shares of common stock to the Company's 401(k) Plan. These shares had a value of approximately $465,000 based on the closing price of the Company's common stock on the American Stock Exchange on December 31, 1995. During 1997, the Company contributed 23,657 shares of common stock to the Company's 401(k) Plan. These shares had a value of approximately $443,000 based on the closing price of the Company's common stock on the American Stock Exchange on December 31, 1996. During 1998, the Company contributed 9,197 shares of common stock to the Company's 401(k) Plan. These shares had a value of approximately $202,000 based on the closing price of the Company's common stock on the American Stock Exchange on December 31, 1997. The Company assumed certain mortgage loans with outstanding balances of $30.7 million in conjunction with certain property acquisitions during 1998. In addition, KVP issued $22,953,000 of limited partner units in conjunction with a property acquisition during 1998.





For 1998, 1997 and 1996, total interest payments (net of amounts capitalized) were $15,015,000, $16,426,000 and $18,599,000, respectively, for the Company. For 1998, 1997 and 1996, payments for income taxes totaled $1,233,000, $690,000 and $816,000, respectively.

ESTIMATES. The preparation of financial statements in conformity with 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 each reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS. In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" effective for fiscal years beginning after December 15, 1997. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement does not require a specific format for that financial statement but requires that an entity display an amount representing total comprehensive income for the period in that financial statement. SFAS No. 130 requires that an entity classify items of other comprehensive income by their nature in a financial statement. For example, other comprehensive income may include foreign currency and unrealized gains and losses on certain investments in debt and equity securities. In addition, the accumulated balance of other comprehensive income must be displayed separately from retained earnings and additional paid in capital in the equity section of a statement of financial position. Reclassification of financial statements for earlier periods, provided for comparative purposes, is required. The Company adopted this accounting standard on January 1, 1998, as required. This standard had no impact on the financial statements as the Company has no other comprehensive income.

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In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" effective for fiscal years beginning after December 15, 1997. This Statement establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 requires reporting segment profit or loss, certain specific revenue and expense items and segment assets. It also requires reconciliations of total segment revenues, total segments profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts reported in the financial statements. Restatement of comparative information for earlier periods presented is required in the initial year of application. Interim information is not required until the second year of application, at which time comparative information is required. The Company adopted this accounting standard on January 1, 1998, as required. This standard had no impact on the financial statements as the Company does not have multiple operating segments.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-Retirement Benefits" effective for fiscal years beginning after December 15, 1997. This Statement revises employers' disclosures about pension and other post-retirement benefit plans. It does not change the measurement or recognition of those plans. This Statement standardizes the disclosure requirements for pensions and other post-retirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer considered useful. The Company adopted this accounting standard on January 1, 1998, as required.

RECLASSIFICATION. Certain 1997 and 1996 amounts have been reclassified to conform with 1998 presentation.





2. TRANSACTIONS WITH RELATED PARTIES.

Three directors were elected to the Company's Board of Directors under the terms of an agreement dated October 10, 1996 between the Company and an affiliate of Apollo Real Estate Investment Fund II, L.P. ("Apollo") pursuant to which Apollo purchased three million shares of common stock from the Company for $43.5 million ($14.50 per share). Such agreement grants to Apollo registration rights and a conditional exemption from certain of the Company's takeover defenses and provides that for a period of three years (subject to earlier termination under certain circumstances): (i) Apollo may purchase up to 25 percent of the Company's outstanding stock; (ii) Apollo will be entitled to Board representation of up to three directors on a board of not more than 12 (depending upon Apollo's level of ownership of the common stock); and (iii) Apollo will not acquire more than 25 percent of the Company's outstanding stock and will vote its shares as to certain matters either in accordance with the recommendation of the Board or proportionately with other shareholders, unless the Company breaches its agreements or, without Apollo's consent, the Company takes certain significant actions such as certain amendments of the Company's organizational documents, liquidation, termination of REIT status, sale of the Company, acquisitions or disposition over a certain size, issuance of more than 9.8 percent of the outstanding common stock to a person or group or failure by the Company to employ its takeover defenses against another person who holds (or tenders for) 15 percent or more of the common stock.

In connection with a public offering of 3.5 million shares of the Company's common stock (the "Shares") which closed in December 1997, the Company entered a purchase agreement with AREIF II Realty Trust, Inc., an affiliate of Apollo, whereby the latter acquired 500,000 of the publicly offered Shares at a price of $19.14 per share or aggregate proceeds to the Company of $9.57 million. The price to the public of the remaining 3,000,000 Shares was $20.25 or an aggregate offering price of $60.75 million. The underwriting discount on these Shares was $1.11 making the per share proceeds to the Company of $19.14 or aggregate proceeds of $57.42 million.

Rothschild Realty, Inc., which employs Mr. Aloian as a Managing Director, received $350,000 for providing a fairness opinion to the Company's Board of Directors in connection with the 1996 sale of common stock to an affiliate of Apollo. Also, Mr. Hiley received from the Company a fee of $204,000 for his role in negotiating the transaction. Both Mr. Aloian and Mr. Hiley are directors of the Company, and Mr. Hiley became Executive Vice President and Chief Financial Officer of the Company in April, 1998.

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Pursuant to a consulting agreement with the Company which ended during 1998, Mr. Hiley provided advice with respect to the financial aspects of the Company's strategic plan and was paid a fee of $146,000 during 1996.

Mr. Davis retired as an employee of the Company on December 31, 1996, but continues to serve the Company as a consultant. Pursuant to a consulting agreement between Mr. Davis and the Company, he will receive a consulting fee of $50,000 per year through December 31, 1999.

3. MORTGAGES AND LOANS PAYABLE.

The Company has a $190 million non-recourse loan with Northwestern Mutual Life Insurance Company ("Northwestern") which is secured by 10 office parks. This loan is divided into (i) a tranche in the amount of $100.5 million with a 10 year maturity and an average interest rate of 8.19 percent and (ii) a tranche in the amount of $89.5 million with a maturity of 12 years and an interest rate of 8.33 percent. Monthly payments on this loan include principal amortization based on a 25 year amortization period. This indebtedness requires the Company to maintain certain financial ratios and is collateralized by properties with a carrying value of approximately $259 million at December 31, 1998.

The Company has a $150 million secured revolving credit facility ($92 million of which was outstanding on December 31, 1998) provided by First Union National Bank of Florida, AmSouth Bank, N.A., Citizens Bank of Rhode Island, Compass Bank and Guaranty Federal Bank. Based on the Company's election, the interest rate on this revolving credit facility will be either (i) the lender's LIBOR rate plus either 130, 145 or 160 basis points (depending on the Company's leverage ratio) or (ii) the lender's prime rate. Interest payments will be due monthly on this credit facility which has a term of three years. This credit





facility requires the Company to maintain certain financial ratios, which includes a limitation on dividends, and is collateralized by properties with a carrying value of approximately $256.7 million at December 31, 1998.

During 1998, the Company assumed other non-recourse loans with outstanding balances of $30.7 million in conjunction with certain property acquisitions. The contractual interest rates on these loans range from 7.25 percent to 8.2 percent. Amortization with respect to this indebtedness is based on equal monthly installments based on 25 year amortization periods. These three loans mature in 2002, 2006 and 2021.

The annual maturities of mortgages and loans payable, as of December 31, 1998, are summarized as follows:

<TABLE>
<CAPTION>

| YEAR ENDING DECEMBER 31, | AMOUNT (IN THOUSANDS) |
|---|---|
| <S> | <C> |
| 1999 | $ 3,269 |
| 2000 | 3,556 |
| 2001 | 95,869 |
| 2002 | 11,914 |
| 2003 | 4,355 |
| Subsequent Years | 188,940 |
| Total | $307,903 |

</TABLE>

4. LEASES

The Company's operations consist principally of owning and leasing of office space. Most of the leases are for terms of three to five years. Generally, the Company pays all operating expenses, including real estate taxes and insurance. At December 31, 1998, approximately 96 percent of the Company's annualized rentals were subject to rent escalations based on changes in the Consumer Price Index, fixed rental increases or increases in real estate taxes and certain operating expenses. A substantial number of leases contain options that allow leases to renew for varying periods.

The Company's leases are operating leases and expire at various dates through 2014. Minimum future rental revenues from leases in effect at December 31, 1998, determined without regard to renewal options, are summarized as follows:

<TABLE>
<CAPTION>

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| YEAR ENDING DECEMBER 31, | AMOUNT (IN THOUSANDS) |
|---|---|
| 1999 | $128,247 |
| 2000 | 107,770 |
| 2001 | 81,663 |
| 2002 | 61,446 |
| 2003 | 40,620 |
| Subsequent Years | 87,856 |
| Total | $507,602 |

The above minimum future rental revenue does not include contingent rentals that may be received under provisions of the lease agreements. Contingent rentals amounted to $4,724,000, $2,850,000 and $2,886,000 for the years 1998, 1997, and 1996, respectively.

At December 31, 1998, annualized rental revenues totaled approximately $15,751,000 for the State of Florida, when all of its departments and agencies which lease space in the Company's buildings were combined.





5. STOCK OPTIONS AND RIGHTS.

1988 STOCK OPTION PLAN. The Company's Amended and Restated 1988 Stock Option Plan (the "1988 Plan") provides for the granting of options to purchase up to 500,000 shares of its common stock to key employees of the Company and its subsidiaries. To exercise the option, payment of the option price is required before the option shares are delivered. These options expire seven years from the date of grant and are generally exercisable beginning one year from the date of the grant at the rate of 20 percent per annum of the shares covered by each option on a cumulative basis being fully exercisable five years after the date of grant.

1993 STOCK OPTION PLAN. The Company's 1993 Stock Option Plan (the "1993 Plan") provides for the granting of options to purchase up to 1,000,000 shares of its common stock to key employees of the Company and its affiliates. To exercise the option, payment of the option price is required before the option shares are delivered. These options expire ten years from the date of grant and are generally exercisable beginning one year from the date of the grant at the rate of 20 percent per annum of the shares covered by each option on a cumulative basis being fully exercisable five years after the date of grant.

1996 STOCK OPTION PLAN. The Company's 1996 Stock Option Plan (the "1996 Plan") provides for the granting of options to purchase up to 650,000 shares of its common stock to key employees of the Company. To exercise the option, payment of the option price is required before the option shares are delivered. These options expire ten years from the date of grant and are exercisable beginning one year from the date of the grant at the rate of 20 percent per annum of the shares covered by each option on a cumulative basis being fully exercisable five years after the date of grant.

1998 EQUITY AND CASH INCENTIVE PLAN. The Company's 1998 Equity and Cash Incentive Plan (the "1998 Plan") provides for the issuance of up to 1,000,000 shares of its common stock pursuant to the grant of awards under this plan which may include stock options, stock appreciation rights, restricted stock, unrestricted stock, deferred stock and performance awards (in cash or stock or combinations thereof). Options granted pursuant to the 1998 Plan would expire ten years from the date of grant.

INFORMATION CONCERNING OPTIONS GRANTED. Substantially all of the options granted have been granted with an exercise price equal to the market value at the date of grant. If compensation cost for stock option grants had been determined based on the fair value at the grant dates for 1998, 1997 and 1996 consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income - As reported | $ 29,602,000 | $ 21,204,000 | $ 10,501,000 |
| - Pro forma | $ 27,688,000 | $ 19,355,000 | $ 10,139,000 |
| Diluted earnings per share - As reported | $ 1.10 | $ 0.94 | $ 0.54 |
| - Pro forma | $ 1.03 | $ 0.86 | $ 0.52 |

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</TABLE>

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the binomial option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| 1988 PLAN | | | |
| Dividend yield | - | 5.00% | 5.00% |
| Expected volatility | - | 23.71% | 28.09% |
| Risk-free interest rates | - | 5.94% | 6.52% |
| Expected lives (months) | - | 38 | 61 |

</TABLE>





| | 1998 | 1997 | 1996 |
|---|---|---|---|
| 1993 PLAN, 1996 PLAN, 1998 PLAN AND OTHER | | | |
| Dividend yield | 6.50% | 5.00% | 5.00% |
| Expected volatility | 20.29% | 23.71% | 24.17% |
| Risk-free interest rates | 5.47% | 6.11% | 6.29% |
| Expected lives (months) | 67 | 65 | 86 |

</TABLE>

A summary of the status of fixed stock option grants as of December 31, 1998, 1997 and 1996, and changes during the years ending on those dates is presented below:

| | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|
| | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding - beginning of year | 1,756,773 | $11.98 | 1,928,959 | $10.51 | 1,251,862 | $ 7.04 |
| Granted | 934,000 | 21.05 | 171,392 | 18.80 | 923,981 | 14.39 |
| Exercised | (170,556) | 6.80 | (335,261) | 6.94 | (146,268) | 7.33 |
| Expired | 0 | -- | 0 | -- | 0 | -- |
| Forfeited | (5,496) | 19.81 | (8,317) | 14.85 | (100,616) | 7.69 |
| Outstanding - end of year | 2,514,721 | $15.68 | 1,756,773 | $11.98 | 1,928,959 | $10.51 |

</TABLE>

The weighted average fair values of options granted during 1998, 1997 and 1996 were $2.71, $4.35 and $3.79 per option, respectively.

The following table summarizes information about fixed stock options outstanding at December 31, 1998:

| EXERCISE PRICE | OPTIONS OUTSTANDING | OPTIONS EXERCISABLE | WEIGHTED AVERAGE REMAINING LIFE (Months) |
|---|---|---|---|
| $ 5.1250 | 19,380 | 19,380 | 1 |
| 7.5000 | 148,900 | 67,636 | 72 |
| 7.6250 | 407,195 | 286,683 | 54 |
| 8.1250 | 3,600 | 1,200 | 76 |
| 11.5000 | 137,127 | 107,013 | 78 |
| 15.3750 | 737,080 | 330,580 | 95 |
| 19.1250 | 18,000 | 3,600 | 97 |
| 19.8125 | 109,439 | 45,423 | 103 |
| 20.0000 | 461,500 | 0 | 116 |
| 21.2500 | 25,000 | 25,000 | 113 |
| 21.5625 | 36,500 | 0 | 109 |

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| | | | |
|---|---|---|---|
| 21.8750 | 286,000 | 0 | 110 |
| 22.8125 | 125,000 | 0 | 110 |
| | 2,514,721 | 886,515 | 92 |

</TABLE>





Remaining non-exercisable options as of December 31, 1998 become exercisable as follows:

| YEAR | NUMBER OF OPTIONS |
|---|---|
| 1999 | 574,918 |
| 2000 | 479,648 |
| 2001 | 368,440 |
| 2002 | 104,400 |
| 2003 | 100,800 |
| | 1,628,206 |

SHAREHOLDER RIGHTS PLAN. Pursuant to a Shareholder Rights Plan (the "Rights Plan"), on September 30, 1990, the Board of Directors of the Company declared a dividend of one Common Stock Purchase Right for each outstanding share of common stock of the Company. Under the terms of the Rights Plan, the rights which were distributed to the shareholders of record on October 11, 1990, trade together with the Company's Shares and are not exercisable until the occurrence of certain events (none of which have occurred through December 31, 1998), including acquisition of, or commencement of a tender offer for, 15 percent or more of the Company's common stock. In such event, each right entitles its holder (other than the acquiring person or bidder) to acquire additional shares of the Company's common stock at a fifty percent discount from the market price. The rights are redeemable under circumstances as specified in the Rights Plan. The Rights Plan was amended effective October 10, 1996 for a certain shareholder and its affiliates. See Note 2 for further discussion of this amendment.

6. STOCK INVESTMENT PLAN.

The Company has a Monthly Stock Investment Plan (the "SIP") which provides for regular purchases of the Company's Shares by all employees and directors. The SIP provides for monthly payroll and directors' fees deductions up to $1,700 per month with the Company making monthly contributions for the account of each participant as follows: (i) 25 percent of amounts up to $50; (ii) 20 percent of amounts between $50 and $100; and (iii) 15 percent of amounts between $100 and $1,700, which amounts are used by an unaffiliated Administrator to purchase Shares from the Company.

The Company has reserved a total of 200,000 Shares for issuance under the SIP. The Company's contribution and the expenses incurred in administering the SIP totaled approximately $58,500, $59,300 and $36,700 for 1998, 1997 and 1996, respectively. Through December 31, 1998, 86,922 Shares have been issued under the SIP.

7. EMPLOYEE BENEFIT PLANS.

The Company has a 401(k) plan (the "401(k) Plan") which permits contributions by employees. For 1996, the Company's Board of Directors approved a Company contribution to the 401(k) Plan in the form of the Company's Shares (23,657 Shares which had a value of approximately $443,000 on December 31, 1996). The contribution for 1996 was made during January 1997. For 1997, the Company's Board of Directors approved a Company contribution to the 401(k) Plan in the form of the Company's Shares (9,197 Shares which had a value of approximately $202,000 on December 31, 1997). The contribution for 1997 was made during February 1998. For 1998, the Company's Board of Directors approved a Company contribution to the 401(k) Plan in the form of the Company's Shares (15,603 Shares which had a value of approximately $268,000 on December 31, 1998). The contribution for 1998 was made on February 18, 1999.

The Company has a supplemental executive retirement plan (the "SERP"), an unfunded defined benefit plan. The purpose of the SERP is to facilitate the

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retirement of select key executive employees by supplementing their benefits under the Company's 401(k) Plan. The benefits are based on years of service and the employee's average base salary during the last three calendar years of employment.





Net periodic pension cost for the SERP for 1998, 1997 and 1996 was as follows (in thousands) :

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Service cost | $ 28 | $ 25 | $ 28 |
| Interest cost | 328 | 287 | 242 |
| Amortization of unrecognized prior service cost | 203 | 203 | 203 |
| Amortization of unrecognized net loss | 67 | 41 | 16 |
| Total | $ 626 | $ 556 | $ 489 |

Assumptions used in the computation of net periodic pension cost for the SERP were as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Discount rate | 7.5% | 7.5% | 7.5% |
| Rate of increase in salary levels | 5.0% | 5.0% | 5.0% |

The following table provides a reconciliation of benefit obligations, the status of the unfunded SERP and the amounts included in accrued liabilities-other in the Consolidated Balance Sheet at December 31, 1998 and 1997 (in thousands):

| | 1998 | 1997 |
|---|---|---|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 4,092 | $ 3,496 |
| Service cost | 28 | 25 |
| Interest cost | 328 | 287 |
| Actuarial (gain)/loss | 339 | 390 |
| Benefits paid | (106) | (106) |
| Benefit obligation at end of year | 4,681 | 4,092 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 0 | 0 |
| Expected return on plan assets | 0 | 0 |
| Employer contribution | 106 | 106 |
| Benefits paid | (106) | (106) |
| Fair value of plan assets at end of year | 0 | 0 |
| Funded status | (4,681) | (4,092) |
| Unrecognized prior service cost | 1,888 | 2,090 |
| Unrecognized actuarial loss | 1,106 | 834 |
| Net amount recognized | (1,687) | (1,168) |
| Amounts recognized in the statement of financial position consist of: | | |
| Accrued benefit liability | (1,687) | (1,168) |
| Additional minimum liability | (1,724) | (1,670) |
| Intangible asset | 1,724 | 1,670 |
| Net amount recognized | $(1,687) | $(1,168) |

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8. DIVIDENDS.

During 1998 and 1997, the Company paid a total of $1.10 and $0.35 per share of dividends, respectively. The Company paid no dividends during the year ended December 31, 1996. The Company intends that the quarterly dividend payout in the last quarter of each year will be adjusted to reflect the distribution of at least 95 percent of the Company's REIT taxable income as required by the Federal income tax laws. The Company's secured revolving credit facility requires the Company to maintain certain financial ratios, which includes a limitation on dividends. During November 1998, the Company's Board of Directors declared a quarterly dividend of $0.30 per share payable on February 4, 1999, to shareholders of record on December 31, 1998.

9. FEDERAL INCOME TAXES.

The Company is operated in a manner so as to qualify and has elected tax treatment as a REIT. For the year ended December 31, 1998, the Company's taxable income prior to the dividends paid deduction was approximately $28,910,000 (which equals the Company's 1998 dividends paid deduction). The Company's taxable income/(loss) prior to the dividends paid deduction for the years ended December 31, 1997 and 1996 was approximately $7,473,000 and $(18,416,000), respectively. The difference between net income for financial reporting purposes and taxable income/loss results primarily from different methods of accounting for bad debts, depreciable lives related to the properties owned, advance rents received and net operating loss carryforwards. At December 31, 1998, the net book basis of the Company's assets and liabilities exceeded the net tax basis of assets and liabilities in the amount of approximately $34 million.

The Company utilized approximately $15,610,000 and $14,932,000 of net operating loss carryforwards to eliminate REIT taxable income for 1997 and 1996, respectively. The Company's net operating loss carryforward available to offset REIT taxable income for 1998 is approximately $6,921,000. The use of net operating loss carryforwards and other tax attributes by the Company is subject to certain limitations imposed by Internal Revenue Code Sections 382 and 383. These limitations apply to both regular and alternative minimum taxes. These net operating loss carryforwards and other tax attributes can be used in varying degrees to offset REIT taxable income or tax through 2007. For 1997 and 1996, the Company incurred alternative minimum taxes of approximately $603,000 and $324,000, respectively, and recorded a provision for alternative minimum taxes of approximately $560,000 for 1998.

10. COMMITMENTS AND CONTINGENCIES.

At December 31, 1998, the Company had commitments for the construction of buildings and improvements to existing buildings of approximately $18.8 million.

11. PRO FORMA INFORMATION - SALE OF COMMON STOCK.

The proceeds of the sale of one million Shares, on March 27, 1998, were used to retire approximately $15 million of debt, with an average interest rate of approximately 7.94%, and for general corporate purposes. Pro forma earnings per share information assuming that the sale of common stock had occurred on January 1, 1998 is as follows:

<TABLE>

| <S> | <C> |
|---|---|
| Pro forma net income | $ 29,794,000 |
| Pro forma earnings per share: | |
| Basic | $ 1.12 |
| Diluted | $ 1.10 |

</TABLE>

12. SUBSEQUENT EVENTS.

During January 1999, the Company repurchased 54,000 Shares for approximately $852,000.





13. INTERIM FINANCIAL INFORMATION (UNAUDITED).

Selected quarterly information for the two years in the period ended December 31, 1998 is presented below (in thousands except per share amounts):

<TABLE>

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<CAPTION>

| QUARTERS ENDED | TOTAL RENTAL REVENUES | TOTAL REVENUES | NET INCOME | DILUTED EARNINGS PER COMMON SHARE |
|---|---|---|---|---|
| March 31, 1997 | $25,512 | $26,943 | $5,693 | $.25 |
| June 30, 1997 | 26,508 | 27,937 | 5,008 | .23 |
| September 30, 1997 (1) | 28,230 | 29,143 | 6,949 | .31 |
| December 31, 1997 | 29,251 | 29,966 | 3,554 | .15 |
| March 31, 1998 | 30,335 | 31,417 | 7,664 | .29 |
| June 30, 1998 | 32,384 | 33,658 | 6,961 | .26 |
| September 30, 1998 | 34,476 | 35,315 | 7,738 | .29 |
| December 31, 1998 | 36,468 | 37,692 | 7,239 | .26 |

</TABLE>

(1) The results for the quarter ended September 30, 1997 were affected by a gain from the sale of a land parcel, which totaled $2,057.





SCHEDULE II

KOGER EQUITY, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(IN THOUSANDS)

<TABLE>
<CAPTION>

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS: CHARGED TO COSTS AND EXPENSES | ADDITIONS: CHARGED TO OTHER ACCOUNTS | DEDUCTIONS | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|
| 1998 | | | | | |
| Allowance for uncollectible accounts | $ 250 | $ 300 | $ 0 | $114(a) | $ 436 |
| Valuation allowance - land held for sale | $ 279 | $ 0 | $ 0 | $ 0 | $ 279 |
| 1997 | | | | | |
| Allowance for uncollectible accounts | $ 231 | $ 224 | $ 0 | $205(a) | $ 250 |
| Valuation allowance - land held for sale | $1,020 | $ (679) | $ 0 | $ 62(b) | $ 279 |
| 1996 | | | | | |
| Allowance for uncollectible accounts | $ 391 | $ 50 | $ 0 | $210(a) | $ 231 |
| Valuation allowance - land held for sale | $1,520 | $ 0 | $ 0 | $500(b) | $1,020 |

</TABLE>

(a) Receivable balance which was determined to be uncollectible and written-off in the applicable year.

(b) Land parcel was sold for which valuation allowance had been recorded.



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SCHEDULE III

KOGER EQUITY, INC. AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998
(IN THOUSANDS)

| CENTER/LOCATION | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION | | TOTAL COST | | | (d) ACCUM. DEPR. |
|---|---|---|---|---|---|---|---|---|
| | LAND | BLDGS & IMPROV. | IMPROVE MENTS | CARRYING COSTS | LAND | BLDGS & IMPROV. | (b)(c) TOTAL | |
| OPERATING REAL ESTATE: | | | | | | | | |
| ATLANTA CHAMBLEE | $ 13,075 | $62,764 | $10,029 | $ 0 | $13,075 | $72,793 | $ 85,868 | $ 17,923 |
| ATLANTA GWINNETT | 1,763 | 12,456 | 758 | 0 | 1,763 | 13,214 | 14,977 | 278 |
| ATLANTA PERIMETER | 2,785 | 18,407 | 360 | 0 | 2,785 | 18,767 | 21,552 | 624 |
| AUSTIN | 4,274 | 13,650 | 3,378 | 0 | 4,274 | 17,028 | 21,302 | 3,853 |
| BIRMINGHAM COLONNADE | 6,054 | 33,689 | 140 | 0 | 6,054 | 33,829 | 39,883 | 585 |
| BIRMINGHAM RETAIL | 5,055 | 6,479 | 30 | 0 | 5,055 | 6,509 | 11,564 | 114 |
| CHARLOTTE CARMEL | 3,170 | 22,904 | 2,288 | 0 | 3,170 | 25,192 | 28,362 | 1,945 |
| CHARLOTTE EAST | 5,788 | 25,078 | 3,958 | 0 | 5,788 | 29,036 | 34,824 | 6,476 |
| CHARLOTTE VANGUARD | 5,136 | 48,019 | 24 | 0 | 5,136 | 48,043 | 53,179 | 203 |
| EL PASO | 4,011 | 12,440 | 4,897 | 0 | 4,011 | 17,337 | 21,348 | 4,685 |
| GREENSBORO SOUTH | 6,384 | 38,700 | 5,276 | 0 | 6,384 | 43,976 | 50,360 | 9,505 |
| GREENSBORO WENDOVER | 0 | 11 | 0 | 0 | 0 | 11 | 11 | 7 |
| GREENVILLE PARK CENTRAL | 1,237 | 12,377 | 311 | 0 | 1,237 | 12,688 | 13,925 | 587 |
| GREENVILLE ROPER MT. | 4,782 | 20,916 | 4,003 | 0 | 4,782 | 24,919 | 29,701 | 5,428 |
| JACKSONVILLE BAYMEADOWS | 10,514 | 40,105 | 1,755 | 0 | 10,514 | 41,860 | 52,374 | 3,808 |
| JACKSONVILLE CENTRAL | 6,755 | 34,806 | 6,683 | 0 | 6,755 | 41,489 | 48,244 | 10,816 |
| JACKSONVILLE JTB | 479 | 2,837 | (9) | 0 | 479 | 2,828 | 3,307 | 192 |
| MEMPHIS GERMANTOWN | 7,017 | 32,211 | 3,339 | 0 | 7,017 | 35,550 | 42,567 | 6,544 |
| ORLANDO CENTRAL | 8,092 | 29,825 | 8,836 | 0 | 8,092 | 38,661 | 46,753 | 10,902 |
| ORLANDO UNIVERSITY | 2,900 | 12,218 | 1,118 | 0 | 2,900 | 13,336 | 16,236 | 2,669 |
| RICHMOND PARAGON | 1,422 | 15,144 | 316 | 0 | 1,422 | 15,460 | 16,882 | 386 |
| ST. PETERSBURG | 6,534 | 28,963 | 5,191 | 0 | 6,534 | 34,154 | 40,688 | 8,641 |
| SAN ANTONIO AIRPORT | 3,243 | 12,791 | 752 | 0 | 3,243 | 13,543 | 16,786 | 626 |
| SAN ANTONIO WEST | 9,638 | 29,649 | 10,055 | 0 | 9,638 | 39,704 | 49,342 | 11,399 |
| TALLAHASSEE | 10,624 | 59,536 | 9,282 | 0 | 10,624 | 68,818 | 79,442 | 14,451 |
| TULSA | 6,315 | 17,134 | 4,715 | 0 | 6,315 | 21,849 | 28,164 | 5,340 |
| SUBTOTALS | 137,047 | 643,109 | 87,485 | 0 | 137,047 | 730,594 | 867,641 | 127,987 |
| FURNITURE & EQUIPMENT | | 3,578 | | | | 3,578 | 3,578 | 1,695 |
| IMPROVEMENTS IN PROGRESS | | | 964 | | | 964 | 964 | |
| TOTAL OPERATING REAL ESTATE | $137,047 | $646,687 | $88,449 | $ 0 | $137,047 | $735,136 | $872,183 | $129,682 |

| CENTER/LOCATION | (a) MORT-GAGES | DATE ACQUIRED | DEPRECIABLE LIFE |
|---|---|---|---|
| OPERATING REAL ESTATE: | | | |
| ATLANTA CHAMBLEE | $ 0 | 1988 - 1993 | 3 - 40 YRS. |
| ATLANTA GWINNETT | 0 | 1993 - 1998 | 3 - 39 YRS. |
| ATLANTA PERIMETER | 0 | 1997 | 3 - 39 YRS. |
| AUSTIN | 16,576 | 1990 - 1993 | 3 - 40 YRS. |
| BIRMINGHAM COLONNADE | 0 | 1998 | 3 - 39 YRS. |
| BIRMINGHAM RETAIL | 0 | 1998 | 3 - 39 YRS. |
| CHARLOTTE CARMEL | 0 | 1993 - 1998 | 3 - 40 YRS. |
| CHARLOTTE EAST | 0 | 1989 - 1993 | 3 - 40 YRS. |
| CHARLOTTE VANGUARD | 22,129 | 1998 | 3 - 40 YRS. |
| EL PASO | 8,776 | 1990 - 1993 | 3 - 40 YRS. |
| GREENSBORO SOUTH | 0 | 1988 - 1993 | 3 - 40 YRS. |
| GREENSBORO WENDOVER | 0 | 1993 | 7 YRS. |
| GREENVILLE PARK CENTRAL | 0 | 1997 | 3 - 39 YRS. |
| GREENVILLE ROPER MT. | 10,726 | 1988 - 1998 | 3 - 40 YRS. |
| JACKSONVILLE BAYMEADOWS | 26,815 | 1993 - 1998 | 3 - 40 YRS. |
| JACKSONVILLE CENTRAL | 0 | 1989 - 1993 | 3 - 40 YRS. |
| JACKSONVILLE JTB | 0 | 1997 | 39 YRS. |
| MEMPHIS GERMANTOWN | 15,624 | 1988 - 1998 | 3 - 40 YRS. |
| ORLANDO CENTRAL | 24,377 | 1988 - 1993 | 3 - 40 YRS. |
| ORLANDO UNIVERSITY | 0 | 1990 - 1993 | 3 - 40 YRS. |
| RICHMOND PARAGON | 8,365 | 1998 | 3 - 39 YRS. |
| ST. PETERSBURG | 19,530 | 1988 - 1993 | 3 - 40 YRS. |
| SAN ANTONIO AIRPORT | 0 | 1997 | 3 - 39 YRS. |
| SAN ANTONIO WEST | 22,948 | 1990 - 1993 | 3 - 40 YRS. |
| TALLAHASSEE | 40,037 | 1988 - 1997 | 3 - 40 YRS. |

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| | | | |
|---|---|---|---|
| TULSA | 0 | 1990 - 1993 | 3 - 40 YRS. |
| | --------- | | |
| SUBTOTALS | 215,903 | | |
| FURNITURE & EQUIPMENT | | | 3 - 15 YRS. |
| IMPROVEMENTS IN PROGRESS | | | |
| | --------- | | |
| TOTAL OPERATING REAL ESTATE | $ 215,903 | | |
| | --------- | | |

</TABLE>





SCHEDULE III

KOGER EQUITY, INC. AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998
(IN THOUSANDS)

<TABLE>
<CAPTION>

| | INITIAL COST | | COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION | | TOTAL COST | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CENTER/LOCATION | LAND | BLDGS & IMPROV. | IMPROVE MENTS | CARRYING COSTS | LAND | BLDGS & IMPROV. | (b)(c) TOTAL | (d) ACCUM. DEPR. | (a) MORT- GAGES | DATE ACQUIRED | DEPRECIABLE LIFE |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| PROPERTIES UNDER CONSTRUCTION: | | | | | | | | | | | |
| ATLANTA CHAMBLEE | $ 438 | $ 247 | $ 0 | $ 0 | $ 438 | $ 247 | $ 685 | $ 0 | $ 0 | | |
| ATLANTA GWINNETT | 0 | 247 | 0 | 0 | 0 | 247 | 247 | 0 | 0 | | |
| BIRMINGHAM COLONNADE | 2,232 | 2,268 | 0 | 0 | 2,232 | 2,268 | 4,500 | 0 | 0 | | |
| EL PASO | 100 | 392 | 0 | 0 | 100 | 392 | 492 | 0 | 0 | | |
| GREENSBORO WENDOVER | 691 | 6,281 | 0 | 0 | 691 | 6,281 | 6,972 | 0 | 0 | | |
| JACKSONVILLE JTB | 3,709 | 8,665 | 0 | 0 | 3,709 | 8,665 | 12,374 | 0 | 0 | | |
| MEMPHIS GERMANTOWN | 1,455 | 608 | 0 | 0 | 1,455 | 608 | 2,063 | 0 | 0 | | |
| ORLANDO UNIVERSITY | 1,263 | 5,061 | 0 | 0 | 1,263 | 5,061 | 6,324 | 0 | 0 | | |
| SAN ANTONIO WEST | 1,430 | 7,538 | 0 | 0 | 1,430 | 7,538 | 8,968 | 0 | 0 | | |
| ST. PETERSBURG | 0 | 255 | 0 | 0 | 0 | 255 | 255 | 0 | 0 | | |
| TOTAL UNDER CONSTRUCTION | 11,318 | 31,562 | 0 | 0 | 11,318 | 31,562 | 42,880 | 0 | 0 | | |
| UNIMPROVED LAND: | | | | | | | | | | | |
| ATLANTA GWINNETT | 5,081 | 0 | 0 | 0 | 5,081 | 0 | 5,081 | 0 | 0 | 1993 | |
| BIRMINGHAM COLONNADE | 4,886 | 0 | 0 | 0 | 4,886 | 0 | 4,886 | 0 | 0 | 1998 | |
| CHARLOTTE CARMEL | 991 | 0 | 0 | 0 | 991 | 0 | 991 | 0 | 0 | 1993 | |
| CHARLOTTE EAST | 468 | 0 | 0 | 0 | 468 | 0 | 468 | 0 | 0 | 1993 | |
| CHARLOTTE VANGUARD | 1,516 | 0 | 0 | 0 | 1,516 | 0 | 1,516 | 0 | 0 | 1998 | |
| COLUMBIA SPRING VALLEY | 76 | 0 | 0 | 0 | 76 | 0 | 76 | 0 | 0 | 1993 | |
| GREENSBORO WENDOVER | 800 | 0 | 0 | 0 | 800 | 0 | 800 | 0 | 0 | 1993 | |
| GREENVILLE PARK CENTRAL | 438 | 0 | 0 | 0 | 438 | 0 | 438 | 0 | 0 | 1997 | |
| JACKSONVILLE CENTRAL | 95 | 0 | 0 | 0 | 95 | 0 | 95 | 0 | 0 | 1989 | |
| JACKSONVILLE JTB | 1,366 | 0 | 0 | 0 | 1,366 | 0 | 1,366 | 0 | 0 | 1998 | |
| ORLANDO CENTRAL | 808 | 0 | 0 | 0 | 808 | 0 | 808 | 0 | 0 | 1989 | |
| ORLANDO UNIVERSITY | 1,617 | 0 | 0 | 0 | 1,617 | 0 | 1,617 | 0 | 0 | 1993 | |
| RICHMOND SOUTH | 481 | 0 | 0 | 0 | 481 | 0 | 481 | 0 | 0 | 1993 | |
| ST. PETERSBURG | 1,301 | 0 | 0 | 0 | 1,301 | 0 | 1,301 | 0 | 0 | 1993 | |
| TULSA | 611 | 0 | 0 | 0 | 611 | 0 | 611 | 0 | 0 | 1993 | |
| TOTAL UNIMPROVED LAND | 20,535 | 0 | 0 | 0 | 20,535 | 0 | 20,535 | 0 | 0 | | |
| TOTAL | $168,900 | $678,249 | $88,449 | $ 0 | $168,900 | $766,698 | $935,598 | $129,682 | $215,903 | | |

</TABLE>





SCHEDULE III

KOGER EQUITY, INC. AND SUBSIDIARIES
REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1998
(IN THOUSANDS)

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(a) At December 31, 1998, the outstanding balance of mortgages payable was $215,903. In addition, the Company has a secured revolving credit facility with variable interest rates which is collaterialized by mortgages on a pool of buildings. At December 31, 1998, the outstanding balance of the secured revolving credit facility was $92,000.

(b) Aggregate cost basis for Federal income tax purposes was $965,009 at December 31, 1998.

(c) Reconciliation of total real estate carrying value for the years ended December 31, 1998, 1997 and 1996 is as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Balance at beginning of year | $723,596 | $613,093 | $601,594 |
| Acquisitions and construction | 191,472 | 102,524 | 1,058 |
| Improvements | 21,225 | 11,902 | 12,568 |
| Transfer from/to other assets | | | (257) |
| Sale of unimproved land | | (4,287) | (1,250) |
| Sale or disposition operating real estate | (695) | (15) | (620) |
| Recovery of loss - land parcels | | 379 | |
| Balance at close of year | $935,598 | $723,596 | $613,093 |

(d) Reconciliation of accumulated depreciation for the years ended December 31, 1998, 1997 and 1996 is as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Balance at beginning of year | $104,700 | $ 82,478 | $ 62,845 |
| Depreciation expense: | | | |
| Operating real estate | 25,146 | 21,795 | 19,538 |
| Furniture and equipment | 531 | 440 | 292 |
| Sale or disposition of operating real estate | (695) | (13) | (197) |
| Balance at close of year | $129,682 | $104,700 | $ 82,478 |





ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information about directors of the Company who are not executive officers is contained in the Company's Proxy Statement (the "1999 Proxy Statement") and is incorporated herein by reference.

The following tabulation lists the executive officers of the Company, their ages and their occupations for the past five years:

| | |
|---|---|
| Victor A. Hughes, Jr. ................ | Chairman of the Board, Chief Executive Officer and Director |
| James C. Teagle...................... | President, Chief Operating Officer and Director |
| David B. Hiley....................... | Executive Vice President, Chief Financial Officer and Director |
| Robert N. Bridger.................... | Senior Vice President of Development |
| W. Lawrence Jenkins ................. | Vice President of Administration and Corporate Secretary |
| James L. Stephens.................... | Vice President and Chief Accounting Officer |

Mr. Hughes, age 63, was elected Chairman and Chief Executive Officer on June 21, 1996. He held the position of Chief Financial Officer of the Company from March 31, 1991 to April 1, 1998, and the position of President from August 22, 1995 to November 14, 1997. Mr. Hughes also held the position of Senior Vice President of the Company from May 20, 1991 to August 21, 1995. Mr. Hughes was

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elected to the Board of Directors of the Company on July 27, 1992.

Mr. Teagle, age 57, was elected President on November 14, 1997, and has been Chief Operating Officer of the Company since June 21, 1996. He previously held the positions of Executive Vice President from June 21, 1996 to November 14, 1997, Senior Vice President from May 10, 1994 to June 21, 1996, and Vice President from December 21, 1993 to May 10, 1994. Mr. Teagle was elected to the Board of Directors of the Company on October 10, 1996.

Mr. Hiley, age 60, was elected Executive Vice President and Chief Financial Officer of the Company on April 1, 1998. He was previously the Managing Director of Berkshire Capital Corporation (an investment banking services firm), and is a Director and former Senior Executive Vice President in charge of the Investment Banking Department of Thomson McKinnon Securities, Inc. (a securities broker-dealer), and a Director and former Executive Vice President of Thomson McKinnon, Inc. (a financial services holding company). Mr. Hiley was elected to the Board of Directors of the Company on April 28, 1993.

Mr. Bridger, age 62, was elected Senior Vice President of Development on November 14, 1997. He had held the position of Vice President since May 10, 1994.

Mr. Jenkins, age 55, has been the Corporate Secretary of the Company since December 21, 1993, and Vice President of the Company since May 10, 1994.

Mr. Stephens, age 41, has been Vice President of the Company since May 7, 1996, and was the Treasurer of the Company from March 31, 1991 to May 7, 1996. He has served as Chief Accounting Officer of the Company since March 31, 1991.





Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers file with the Securities and Exchange Commission (the "SEC") and the American Stock Exchange initial reports of ownership and reports of changes in ownership of the Company's equity securities. Executive officers and directors are required by regulations of the SEC to furnish the Company with copies of all Section 16(a) forms they file.

Except for the late reporting of the exercise of Stock Options to purchase shares by James L. Stephans and by Irvin H. Davis, to the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 1998, the Company's executive officers and directors complied with all Section 16(a) filing requirements.

## ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the section headed "Executive Compensation" in the 1999 Proxy Statement (except for information contained under the headings "Compensation Committee Report on Executive Compensation" and "Shareholder Return Performance Presentation").

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The stock ownership of each person known to the Company to be the beneficial owner of more than five percent (5%) of its outstanding common stock is incorporated by reference to the section headed "Principal Holders of Voting Securities" of the 1999 Proxy Statement. The beneficial ownership of Common Stock of all directors of the Company is incorporated by reference to the section headed "Election of Directors" contained in the 1999 Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is made to Item 1. "Business," 2. "Properties," 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 "Transactions With Related Parties" to the Notes to Consolidated Financial Statements contained in this Report and to the heading "Certain Relationships and Transactions" contained in the 1999 Proxy Statement for information regarding certain relationships and related transactions which information is incorporated herein by reference.





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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) See "Item 8 - Financial Statements and Supplementary Data - Index to Consolidated Financial Statements and Financial Statement Schedules" for a list of the financial statements included in this report.

(2) The consolidated supplemental financial statement schedules required by Regulation S-X are included on pages 42 through 45 in this Form.

(b) Reports on Form 8-K:
On December 31, 1998, the Company filed a Form 8-K (dated October 22, 1998) reporting under Item 5, Other Events, an acquisition transaction completed on October 22, 1998 and providing under Item 7, Financial Statements and Exhibits, Statements of Revenues and Certain Expenses for the acquisition transaction.

(c) The following exhibits are filed as part of this report:

<TABLE>
<CAPTION>

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 1 | Underwriting Agreement dated December 12, 1997, between Koger Equity, Inc. and J.P. Morgan Securities, Inc., Bear Stearns and Company, Inc. and BT Alex Brown Incorporated, as Representatives of the several underwriters. Incorporated by reference to Exhibit 1 of the Form 8-K, dated December 12, 1997, filed by the Registrant on December 15, 1997 (File No. 1-9997). |
| 1(a) | Underwriting Agreement dated March 24, 1998, between Koger Equity, Inc. and Wheat, First Securities, Inc. Incorporated by reference to Exhibit 1 of the Form 8-K, dated March 24, 1998, filed by the Registrant on March 30, 1998 (File No. 1-9997). |
| 2 | Agreement and Plan of Merger, dated as of December 21, 1993 between the Company and Koger Properties, Inc. Incorporated by reference to Exhibit 2 of Form 10-K filed by the Registrant for the period ended December 31, 1993 (File No. 1-9997). |
| 3(a) | Amended and Restated Articles of Incorporation of Koger Equity, Inc. Incorporated by reference to Exhibit 3 of the Form 8-K, dated May 10, 1994, filed by the Registrant on June 17, 1994 (File No. 1-9997). |
| 3(b) | Koger Equity, Inc. By Laws, as Amended and Restated on August 21, 1996. Incorporated by reference to Exhibit 3(ii) of the Form 8-K/A, dated August 22, 1996 filed by the Registrant on August 22, 1996 (File No. 1-9997). |
| 4(a) | Common Stock Certificate of Koger Equity, Inc. Incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-11 (Registration No. 33-22890). |
| 4(b)(1)(A) | Koger Equity, Inc. Rights Agreement (the "Rights Agreement") dated as of September 30, 1990 between the Company and Wachovia Bank and Trust Company, N.A. as Rights Agent ("Wachovia"). Incorporated by reference to Exhibit 1 to a Registration Statement on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 4(b)(1)(B) | First Amendment to the Rights Agreement, dated as of March 22, 1993, between the Company and First Union National Bank of North Carolina, as Rights Agent ("First Union"), entered into for the purpose of replacing Wachovia. Incorporated by reference to Exhibit 4(b)(4) of the Form 10-Q filed by the Registrant for the quarter ended March 31, 1993 (File No. 1-9997). |
| 4(b)(1)(C) | Second Amendment to the Rights Agreement, dated as of December 21, 1993, between the Company and First Union. Incorporated by reference to Exhibit 5 to an Amendment on Form 8-A/A, dated December 21, 1993, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |

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</TABLE>





| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 4(b)(1)(D) | Third Amendment to Rights Agreement, dated as of October 10, 1996, between Koger Equity, Inc. and First Union. Incorporated by reference to Exhibit 6 to an Amendment on Form 8-A/A, dated November 7, 1996, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 4(b)(1)(E) | Fourth Amendment to Rights Agreement, dated as of February 27, 1997, between Koger Equity, Inc. and First Union. Incorporated by reference to Exhibit 8 to an Amendment on Form 8-A/A, dated March 17, 1997, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 4(b)(2) | Form of Common Stock Purchase Rights Certificate (attached as Exhibit A to the Rights Agreement). Pursuant to the Rights Agreement, printed Common Stock Purchase Rights Certificates will not be mailed until the Distribution Date (as defined in the Rights Agreement). |
| 4(b)(3) | Summary of Common Stock Purchase Rights (attached as Exhibit B to the Rights Agreement, Exhibit 4(b)(1)(A)). |
| 4(c)(1) | Warrant Agreement, dated as of December 21, 1993, between the Company and First Union (the "Warrant Agreement"). Incorporated by reference to Exhibit 2 to an Amendment on Form 8-A/A, dated December 21, 1993, to a Registration Statement on Form 8-A, dated September 30, 1993 (File No. 1-9997). |
| 4(c)(2) | Form of a Common Share Purchase Warrant issued pursuant to the Warrant Agreement. Incorporated by reference to Exhibit 1 to an Amendment on Form 8-A/A, dated December 21, 1993, to a Registration Statement on Form 8-A, dated September 30, 1993 (File No. 1-9997). |
| 10(a)(1)(A) | Koger Equity, Inc. Amended and Restated 1988 Stock Option Plan. Incorporated by reference to Exhibit 10(e)(1)(A) of Form 10-Q filed by the Registrant for the quarter ended June 30, 1992 (File No. 1-9997). |
| 10(a)(1)(B) | Form of Stock Option Agreement pursuant to Koger Equity, Inc. Amended and Restated 1988 Stock Option Plan. Incorporated by reference to Exhibit 10(e)(2)(A) of Form 10-Q filed by the Registrant for the quarter ended June 30, 1992 (File No. 1-9997). |
| 10(a)(1)(C) | Form of Amendment to Stock Option Agreement pursuant to Koger Equity, Inc. Amended and Restated 1988 Stock Option Plan. Incorporated by reference to Exhibit 10(a)(1)(C) of Form 10-K filed by the Registrant for the period ended December 31, 1996 (File No. 1-9997). |
| 10(a)(2)(A) | Koger Equity, Inc. 1993 Stock Option Plan. Incorporated by reference to Exhibit II to Registrant's Proxy Statement dated June 30, 1993 (File No. 1-9997). |
| 10(a)(2)(B) | Form of Stock Option Agreement pursuant to Koger Equity, Inc. 1993 Stock Option Plan. Incorporated by reference to Exhibit 10(e)(3)(B) of Form 10-K filed by the Registrant for the period ended December 31, 1994 (File No. 1-9997). |
| 10(a)(2)(C) | Form of Amendment to Stock Option Agreement pursuant to Koger Equity, Inc. 1993 Stock Option Plan. Incorporated by reference to Exhibit 10(a)(2)(C) of Form 10-K filed by the Registrant for the period ended December 31, 1996 (File No. 1-9997). |
| 10(a)(3)(A) | Koger Equity, Inc. 1996 Stock Option Plan. Incorporated by reference to Exhibit 10(a)(3)(A) of Form 10-K filed by the Registrant for the period ended December 31, 1996 (File No. 1-9997). |
| 10(a)(3)(B) | Form of Stock Option Agreement pursuant to Koger Equity, Inc. 1996 Stock Option Plan. Incorporated by reference to Exhibit 10(a)(3)(B) of Form 10-K filed by the Registrant for the period ended December 31, |

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| | 1996 (File No. 1-9997). |
|---|---|
| 10(b)(1) | Shareholders Agreement, dated August 9, 1993, between the Company and TCW Special Credits, a California general partnership. Incorporated by reference to Exhibit 10(o) of Form 10-K filed by the Registrant for the period ended December 31, 1993 (File No. 1-9997). |

</TABLE>





<TABLE>
<CAPTION>

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 10(b)(2) | Registration Rights Agreement, dated as of August 9, 1993, between the Company and TCW Special Credits, a California general partnership. Incorporated by reference to Exhibit 10(p) of Form 10-K filed by the Registrant for the period ended December 31, 1993 (File No. 1-9997). |
| 10(c) | License Agreement, dated as of July 28, 1995, between Koger Equity, Inc. and Koger Realty Services, Inc. Incorporated by reference to Exhibit 10(v) of Form 10-Q filed by the Registrant for the quarter ended June 30, 1995 (File No. 1-9997). |
| 10(d)(1) | Supplemental Executive Retirement Plan, dated as of August 18, 1995 to be effective as of June 28, 1995. Incorporated by reference to Exhibit 10(w) of Form 10-Q filed by the Registrant for the quarter ended September 30, 1995 (File No. 1-9997). |
| 10(d)(2) | Amendment No. 1 to Supplemental Executive Retirement Plan, effective June 21, 1996. Incorporated by reference to Exhibit 10(d)(2) of Form 10-K filed by the Registrant for the period ended December 31, 1997 (File No. 1-9997). |
| 10(d)(3) | Amendment No. 2 to Supplemental Executive Retirement Plan, effective May 19, 1998.* |
| 10(d)(4) | Amendment No. 3 to Supplemental Executive Retirement Plan, effective May 19, 1998.* |
| 10(e) | Form of Indemnification Agreement between Koger Equity, Inc. and its Directors and certain of its officers. Incorporated by reference to Exhibit 10(x) of Form 10-K filed by the Registrant for the year ended December 31, 1995 (File No. 1-9997). |
| 10(f)(1) | Amended and Restated Employment Agreement between Koger Equity, Inc. and Victor A. Hughes, Jr. effective as of April 1, 1998.* |
| 10(f)(2) | Amended and Restated Employment Agreement between Koger Equity, Inc. and James C. Teagle, effective as of April 1, 1998*. |
| 10(f)(3) | Employment Agreement between Koger Equity, Inc. and David B. Hiley, effective as of April 1, 1998.* |
| 10(g)(1)(A) | Stock Purchase Agreement, dated as of October 10, 1996, between Koger Equity, Inc. and AP-KEI Holdings, LLC, a Delaware limited liability company. Incorporated by reference to Exhibit 7 to an Amendment on Form 8-A/A, dated November 7, 1996, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 10(g)(1)(B) | Registration Rights Agreement, dated as of October 10, 1996, between Koger Equity, Inc. and AP-KEI Holdings, LLC, a Delaware limited liability company. Incorporated by reference to Exhibit A of the Stock Purchase Agreement, dated as of October 10, 1996, between Koger Equity, Inc. and AP-KEI Holdings, LLC, which is Exhibit 7 to an Amendment on Form 8-A/A, dated November 7, 1996, to a Registration Statement on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 10(g)(2)(A) | Amendment No. 1 to Stock Purchase Agreement, dated as of February 27, 1997, between Koger Equity, Inc. and AP-KEI Holdings, LLC. Incorporated by reference to Exhibit 9 to an Amendment on Form 8-A/A, dated March 17, 1997, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |

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| | |
|---|---|
| 10(g)(2)(B) | Assignment and Assumption Agreement, dated as of February 27, 1997, among and between Koger Equity, Inc. and AP-KEI Holdings, LLC and AREIF II Realty Trust, Inc. Incorporated by reference to Exhibit 10 to an Amendment on Form 8-A/A, dated March 17, 1997, to a Registration Statement of the Registrant on Form 8-A, dated October 3, 1990 (File No. 1-9997). |
| 10(g)(3) | Purchase Agreement, dated December 12, 1997, between Koger Equity, Inc. and AREIF II Realty Trust, Inc. Incorporated by reference to Exhibit 10 of the Form 8-K, dated December 12, 1997, filed by the Registrant on December 15, 1997 (File No. 1-9997). |

</TABLE>





<TABLE>
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| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 10(h) | Consulting Agreement, dated as of June 21, 1996, between Koger Equity, Inc. and Irvin H. Davis. Incorporated by reference to Exhibit 10(ab) of Form 10-Q filed by the Registrant for the quarter ended September 30, 1996 (File No. 1-9997). |
| 10(i) | Consulting Agreement, dated as of March 14, 1996, between Koger Equity, Inc. and David B. Hiley. Incorporated by reference to Exhibit 10(ac) of Form 10-Q filed by the Registrant for the quarter ended September 30, 1996 (File No. 1-9997). |
| 10(j)(1) | Loan Application, dated July 29, 1996, by Koger Equity, Inc. to The Northwestern Mutual Life Insurance Company. Incorporated by reference to Exhibit 10(j)(1) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(2)(A) | Koger Equity, Inc. Tranche A Promissory Note, dated December 16, 1996, in the principal amount of $100,500,000 payable to The Northwestern Mutual Life Insurance Company. Incorporated by reference to Exhibit 10(j)(2)(A) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(2)(B) | Koger Equity, Inc. Tranche B Promissory Note, dated December 16, 1996, in the principal amount of $89,500,000 payable to The Northwestern Mutual Life Insurance Company. Incorporated by reference to Exhibit 10(j)(2)(B) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(3)(A) | Master Lien Instrument from Koger Equity, Inc. to The Northwestern Mutual Life Insurance Company, dated December 16, 1996, (1) with Mortgage and Security Agreement for Duval, Leon, Orange and Pinellas Counties, Florida and (2) with Deed of Trust and Security Agreement for Greenville County, South Carolina, Shelby County, Tennessee and Bexar, El Paso and Travis Counties, Texas. Incorporated by reference to Exhibit 10(j)(3)(A) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(3)(B) | Absolute Assignment of Leases and Rents from Koger Equity, Inc. to The Northwestern Mutual Life Insurance Company, dated December 16, 1996, for Duval, Leon, Orange, and Pinellas Counties, Florida, Greenville County, South Carolina, Shelby County, Tennessee and Bexar, El Paso and Travis Counties, Texas. Incorporated by reference to Exhibit 10(j)(3)(B) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(4) | Environmental Indemnity Agreement, dated December 16, 1996, between Koger Equity, Inc. and The Northwestern Mutual Life Insurance Company and |

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| | |
|---|---|
| | others. Incorporated by reference to Exhibit 10(j)(4) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(j)(5) | Certificate of Borrower contained in letter, dated December 16, 1996, from Koger Equity, Inc. to The Northwestern Mutual Life Insurance Company. Incorporated by reference to Exhibit 10(j)(5) on Form 8-K, dated December 16, 1996, filed by the Registrant on March 10, 1997 (File No. 1-9997). |
| 10(k)(1) | The Second Amended and Restated Revolving Credit Loan Agreement dated as of December 30, 1998 between and among Koger Equity, Inc., and First Union National Bank of Florida, AmSouth Bank, Guaranty Federal Bank F.S.B., Citizens Bank of Rhode Island and Compass Bank (the "Lenders"). Incorporated by reference to Exhibit 10(k)(1) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(2)(A) | The Substitution Revolving Promissory Note dated December 30, 1998 issued by Koger Equity, Inc. to First Union National Bank of Florida in the principal amount of up to $45,000,000. Incorporated by reference to Exhibit 10(k)(2)(a) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |

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| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 10(k)(2)(B) | The Substitution Revolving Promissory Note dated December 30, 1998 issued by Koger Equity, Inc. to AmSouth Bank in the principal amount of up to $35,000,000. Incorporated by reference to Exhibit 10(k)(2)(b) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(2)(C) | The Substitution Revolving Promissory Note dated December 30, 1998 issued by Koger Equity, Inc. to Guaranty Federal Bank F.S.B. in the principal amount of up to $35,000,000. Incorporated by reference to Exhibit 10(k)(2)(c) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(2)(D) | The Revolving Promissory Note, dated December 30, 1998, issued by Koger Equity, Inc. to Citizens Bank of Rhode Island in the principal amount of up to $20,000,000. Incorporated by reference to Exhibit 10(k)(2)(d) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(2)(E) | The Revolving Promissory Note, dated December 30, 1998, issued by Koger Equity, Inc. to Compass Bank in the principal amount of up to $15,000,000. Incorporated by reference to Exhibit 10(k)(2)(e) on Form 8-k, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(3)(A) | The Mortgage, Assignment of Leases and Rents, and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Alabama. Incorporated by reference to Exhibit 10(k)(3)(a) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(3)(B) | The Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Alabama. Incorporated by reference to Exhibit 10(k)(3)(b) on Form 8-k, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(3)(C) | The Assignment of Contracts, Licenses and Permits, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Alabama. Incorporated by reference to Exhibit 10(k)(3)(c) on Form 8-K, dated December 30, 1998, |

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| | |
|---|---|
| | filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(3)(D) | The Environmental Indemnification Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Alabama. Incorporated by reference to Exhibit 10(k)(3)(d) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(A)(i) | The Second Amended and Restated Deed to Secure Debt, Assignment of Leases and Rents, and Security Agreement dated as of December 30, 1998 relating to that portion of the Collateral located in Dekalb County, State of Georgia granted by Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(4)(a)(i) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(A)(ii) | The Amendment to Assignment of Leases and Rents dated as of December 30, 1998 relating to that portion of the Collateral located in Dekalb County, State of Georgia granted by Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(4)(a)(ii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(A)(iii) | The Amendment to Environmental Indemnification Agreement dated as of December 30, 1998 relating to that portion of the Collateral located in Dekalb County, State of Georgia between and among Koger Equity, Inc. and the Lenders. Incorporated by reference to Exhibit 10(k)(4)(a)(iii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |

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| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 10(k)(4)(A)(iv) | The Amendment to Assignment of Contracts, Licenses and Permits dated as of December 30, 1998 relating to that portion of the Collateral located in Dekalb County, State of Georgia from Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(4)(a)(iv) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(B)(i) | The Deed to Secure Debt, Assignment of Leases and Rents, and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in Gwinnett County, State of Georgia. Incorporated by reference to Exhibit 10(k)(3)(b)(i) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(B)(ii) | The Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the Collateral located in Gwinnett County, State of Georgia. Incorporated by reference to Exhibit 10(k)(4)(b)(ii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(B)(iii) | The Environmental Indemnification Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in Gwinnett County, State of Georgia. Incorporated by reference to Exhibit 10(k)(4)(b)(iii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(4)(B)(iv) | The Amendment to Assignment of Contracts, Licenses and Permits, dated as of December 30, 1998, relating to that portion of the Collateral located in Gwinnett County, State of Georgia. Incorporated by reference to Exhibit 10(k)(4)(b)(iv) on Form 8-K, dated December 30, 1998, filed by the |

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| | Registrant on February 16, 1999 (File No. 1-9997). |
|---|---|
| 10(k)(5)(A)(i) | The Second Amended and Restated Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in Guilford County, State of North Carolina granted by Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(5)(a)(i) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(5)(A)(ii) | The Amended and Restated Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the Collateral located in Guilford County, State of North Carolina from Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(5)(a)(ii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(5)(A)(iii) | The Amendment to Environmental Indemnification Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in both Guilford and Mecklenburg Counties, State of North Carolina between and among Koger Equity, Inc. and the Lenders. Incorporated by reference to Exhibit 10(k)(5)(a)(iii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(5)(A)(iv) | The Amendment to Assignment of Contracts, Licenses and Permits, dated as of December 30, 1998, relating to that portion of the Collateral located in both Guilford and Mecklenburg Counties, State of North Carolina from Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(5)(a)(iv) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(5)(B)(i) | The Amended and Restated Deed of Trust, Assignment of Leases and Rents and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in Mecklenburg County, State of North Carolina granted by Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(5)(b)(i) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No 1-9997). |

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| EXHIBIT NUMBER | DESCRIPTION |
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| <S> | <C> |
| 10(k)(5)(B)(ii) | The Amended and Restated Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the collateral located in Mecklenburg County, State of North Carolina. Incorporated by reference to Exhibit 10(k)(5)(b)(ii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(5)(B)(iii) | The Amended and Restated Mortgage, Assignment of Leases and Rents and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of South Carolina granted by Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(5)(b)(iii) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(6)(A) | The Amendment to Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of South Carolina from Koger Equity, Inc. to, and in favour of, the Lenders. Incorporated by reference to Exhibit 10(k)(6)(a) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, |

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| | |
|---|---|
| | 1999 (File No. 1-9997). |
| 10(k)(6)(B) | The Amendment to Environmental Indemnification Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of South Carolina among and between Koger Equity, Inc. and the Lenders. Incorporated by reference to Exhibit 10(k)(6)(b) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(6)(C) | The Amendment to Assignment of Contracts, Licenses and Permits, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of South Carolina among and between Koger Equity, Inc. and the Lenders. Incorporated by reference to Exhibit 10(k)(6)(c) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(7)(A) | The Deed of Trust, Assignment of Leases and Rents, and Security Agreement, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Texas. Incorporated by reference to Exhibit 10(k)(7)(a) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(7)(B) | The Assignment of Leases and Rents, dated as of December 30, 1998, relating to that portion of the Collateral located in the State of Texas. Incorporated by reference to Exhibit 10(k)(7)(b) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(7)(C) | The Environmental Indemnification Agreement, dated as of December 30, 1998, relating to that portion of the Collateral in the State of Texas. Incorporated by reference to Exhibit 10(k)(7)(c) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(7)(D) | The Assignment of Contracts, Licenses and Permits, dated as of December 30, 1998, relating to that portion of the Collateral in the State of Texas. Incorporated by reference to Exhibit 10(k)(7)(d) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 10(k)(8) | Unconditional Guaranty, dated December 30, 1998, of Koger Real Estate Services, Inc. and Southeast Properties Holding Corporation, Inc. both wholly owned of Koger Equity, Inc. to perform and make payments pursuant to the Second Amended and Restated Revolving Credit Loan Agreement. Incorporated by reference to Exhibit 10(k)(8) on Form 8-K, dated December 30, 1998, filed by the Registrant on February 16, 1999 (File No. 1-9997). |
| 11 | Earnings Per Share Computations.* |

</TABLE>





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| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| <S> | <C> |
| 12 | Amended and Restated Agreement of Limited Partnership of Koger-Vanguard Partners, L.P., dated as of October 22, 1998, between Koger Equity, Inc. as General Partner and certain persons as Limited Partners of Koger-Vanguard Partners, L.P. Incorporated by reference to Exhibit 12 on Form 8-K, dated October 22, 1998, filed by the Registrant on December 31, 1998 (File No. 1-9997). |
| 21 | Subsidiaries of the Registrant.* |
| 23 | Independent Auditors' Consent.* |
| 27 | Financial Data Schedule (for SEC use only).* |

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, Koger Equity, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KOGER EQUITY, INC.

By: Victor A. Hughes, Jr.
----------------------------------------------
Victor A. Hughes, Jr.
Chairman of the Board and Chief Executive Officer
Date: March 23, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

| SIGNATURE | TITLE | DATE |
|---|---|---|
| <S> | <C> | <C> |
| Victor A. Hughes, Jr.<br>------------------------------------------------------<br>(VICTOR A. HUGHES, JR.) | Chairman of the Board and Chief Executive Officer | March 23, 1999 |
| James C. Teagle<br>------------------------------------------------------<br>(JAMES C. TEAGLE) | President, Chief Operating Officer and Director | March 23, 1999 |
| David B. Hiley<br>------------------------------------------------------<br>(DAVID B. HILEY) | Executive Vice President, Chief Financial Officer and Director | March 23, 1999 |
| James L. Stephens<br>------------------------------------------------------<br>(JAMES L. STEPHENS) | Vice President and Chief Accounting Officer | March 23, 1999 |
| D. Pike Aloian<br>------------------------------------------------------<br>(D. PIKE ALOIAN) | Director | March 23, 1999 |
| Benjamin C. Bishop<br>------------------------------------------------------<br>(BENJAMIN C. BISHOP) | Director | March 23, 1999 |
| Irvin H. Davis<br>------------------------------------------------------<br>(IRVIN H. DAVIS) | Director | March 23, 1999 |
| John R. S. Jacobsson<br>------------------------------------------------------<br>(JOHN R. S. JACOBSSON) | Director | March 23, 1999 |
| G. Christian Lantzsch<br>------------------------------------------------------<br>(G. CHRISTIAN LANTZSCH) | Director | March 23, 1999 |
| William L. Mack<br>------------------------------------------------------<br>(WILLIAM L. MACK) | Director | March 23, 1999 |
| Lee S. Neibart<br>------------------------------------------------------<br>(LEE S. NEIBART) | Director | March 23, 1999 |
| George F. Staudter<br>------------------------------------------------------<br>(GEORGE F. STAUDTER) | Director | March 23, 1999 |
| S. D. Stoneburner<br>------------------------------------------------------<br>(S. D. STONEBURNER) | Director | March 23, 1999 |

</TABLE>



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EXHIBIT 10(d)(3)

AMENDMENT NO. 2
TO
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR EXECUTIVES OF
KOGER EQUITY, INC. AND PARTICIPATING
RELATED ENTITIES

Pursuant to Article 8 of the Supplemental Executive Retirement Plan for Executives of Koger Equity, Inc. and Participating Related Entities (the "Plan"), the Plan is hereby amended as follows:

1. The second sentence of Section 5.3 is deleted and replaced in its entirety by the following:

"If a Participant dies before commencement of benefits, the Participant's surviving spouse in the case of a Schedule B or Schedule E Participant or the Participant's Beneficiary in the case of Schedule C Participant may elect to have the applicable annual benefit under Section 5.1, 5.2 or 5.4 commence at any time after the Participant's 62nd birthday (but not later than the Participant's Normal Retirement Date)."

2. The following new Section 5.4 is added at the end of Article 5:

"5.4 Schedule E Participants.

(a) Subject to Section 5.3, the annual benefit payable under the Plan to a Participant listed on Schedule E (a "Schedule E Participant") will be (i) minus (ii) minus (iii), where

(i) is 35% of the Participant's Base Pay multiplied in the case of a Participant with fewer than five Years of Service by a fraction the numerator of which is the Participant's Years of Service and the denominator of which is 5;

(ii) is the annual benefit payable commencing at retirement in the form of a 50% joint and survivor annuity (with the Participant's spouse as contingent annuitant) that is the actuarial equivalent of the Participant's Basic Plan Benefit (using the actuarial assumptions set forth in Schedule D as that Schedule may from time to time be amended by the Company); and

(iii) is the Participant's annual Social Security Benefit.

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(b) Subject to Section 5.3, the Schedule E Participant's annual benefit will commence at his or her Normal Retirement Date (or such later date on which the Participant actually retires) and continue for his or her lifetime. If a Participant dies leaving a surviving spouse, an annual benefit equal to 50% of the Participant's annual benefit will be paid to his or her surviving spouse for the lifetime of the surviving spouse.

(c) A Schedule E Participant and his or her surviving spouse will be entitled to medical insurance coverage to the same extent as a Schedule B Participant under the terms of Section 5.1(c)."

3. The following new Section 6.4 is inserted at the end of Article 6:

"6.4 Schedule E Participants. In the event of either (a) a "Qualified Termination" of a Schedule E Participant, or (b) the termination of a Schedule E Participant's employment following the expiration of the original term of the Participant's employment agreement with the Company and as result of a decision by the Company not to extend such employment agreement, (i) the Participant will, notwithstanding any other provision of the Plan, immediately become fully vested in his or her retirement benefits under Section 5.4, and (ii) such benefits will be calculated without any reduction for fewer than five Years of Service that might otherwise be required under Section 5.4(a)(i)."

4. Schedule E attached hereto is appended to the Plan.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer this 19th day of May, 1998.

KOGER EQUITY, INC.

By: /s/ W. Lawrence Jenkins, V. P.
------------------------------

KOGER REALTY SERVICES, INC.

By: /s/ W. Lawrence Jenkins, V. P.
------------------------------

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3

SCHEDULE E

<TABLE>
<CAPTION>
Participants
------------
<S> <C>
David B. Hiley
</TABLE>



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EXHIBIT 10(d)(4)

AMENDMENT NO. 3
TO
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR EXECUTIVES OF KOGER EQUITY, INC. AND
PARTICIPATING RELATED ENTITIES

In accordance with Article 8 of the Supplemental Executive Retirement Plan for Executives of Koger Equity, Inc. and Participating Related Entities (the "SERP"), the following amendments were hereby adopted by the Board of Directors of Koger Equity, Inc. and Participating Related Entities, effective May 19, 1998.

1. Section 5.2(a)(i) is to be deleted and replaced in its entirety by the following, as of a date to be specified by the Chairman of the Board and Chief Executive Officer:

(i) is 50% of the Participant's Base Pay;

2. The following new Section 6.5 is added at the end of Article 6:

6.5. In the event of a Qualified Termination with respect to any payment or benefit provided by the Company under the SERP or any other employee benefit plan, option or award or otherwise which would be subject to excise tax under Section 4999 of the Internal Revenue Code of 1986, a Participant will be entitled to a gross-up, lump-sum payment to make the Participant whole for any and all taxes (including interest and penalties) which might be imposed pursuant to said Section 4999.

IN WITNESS WHEREOF, the Company and Participating Related Entities have caused this Amendment to the SERP to be executed by their duly authorized officers this 19th of May, 1998.

KOGER EQUITY, INC.

By: /s/ W. LAWRENCE JENKINS
---------------------------
V. P.

KOGER REALTY SERVICES, INC.

By: /s/ W. LAWRENCE JENKINS
---------------------------
V. P.

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EXHIBIT 10(f)(1)

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This is an agreement (the "Agreement") between Koger Equity, Inc. (the "Company"), a Florida corporation with its principal place of business at Jacksonville, Florida, and Victor A. Hughes, Jr., of Jacksonville, Florida (the "Executive"), effective as of April 1,1998 (the "Effective Date").

WHEREAS, the operations of the Company require direction and leadership in a variety of areas;

WHEREAS, the Executive has experience and expertise, including service with the Company as a senior executive, that qualify him to provide that direction and leadership, and the Company therefore wishes to employ him as its Chairman and chief executive officer, and he wishes to accept such employment; and

WHEREAS, the Board of Directors of the Company approved the Employment Agreement dated June 21, 1996, between the Company and the Executive and has approved an extension and amendment of that Employment Agreement as restated herein.

NOW, THEREFORE, the parties agree as follows:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts employment.

2. Term. Subject to earlier termination as provided in Section 5 below, the term of the Executive's employment hereunder (the "Term of Employment") shall be a period starting on April 1,1998, and ending on December 31, 2000, or, if later, the 180th day following the date on which either the Company or the Executive gives written notice to the other that he or it is terminating the Term of Employment under this Agreement. The Term of Employment may be otherwise extended or renewed only by a written agreement signed by the Executive and an expressly authorized representative of the Company.

3. Capacity and Performance. During the Term of Employment, the Executive shall:

(a) serve the Company on a full-time basis as its Chairman and chief executive officer with his principal place of employment at the Company's executive offices in Jacksonville, Florida;

(b) perform such duties and responsibilities on behalf of the Company as may be designated from time to time by the Board of Directors of the Company

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(the "Board") consistent with the position of Chairman and chief executive officer;



(c) devote substantially all of his business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and to the discharge of his duties and responsibilities under this Agreement, and he shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the Term of Employment, except (i) service as a director of business, industry, trade, professional, governmental or academic organizations which service does not interfere in any material way with the performance of the Executive's duties and responsibilities hereunder; and (ii) as may otherwise be expressly approved by the Board.

(d) The Company agrees to use its best efforts to cause the election of the Executive to the Board during the Term of Employment.

4. Compensation and Benefits.

(a) Base Salary. During the Term of Employment, the Company shall pay the Executive base salary ("Base Salary") at the rate of $300,000 per year, prorated for any partial period. All Base Salary shall be payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board (or its Compensation Committee) in its sole discretion.

(b) Discretionary Bonuses. The Executive will be considered for year-end bonuses if the Company performs well, and will be included with the President and chief operating officer and the Executive Vice President and chief financial officer for such purpose, but the determination whether or not any such bonuses will be paid shall be in the sole discretion of the Compensation Committee of the Board, provided that in the event of the disability or death of Executive or his termination by the Company other than for Cause, Executive shall be paid an amount at least equal to a Stipulated Bonus. A Stipulated Bonus shall be equal to the average bonus paid to Executive in respect of the three years prior to termination for death, disability or other than for Cause (or such lesser time as Executive has been employed by the Company), prorated through the date of termination in the case of death or disability or for the balance of the Term of Employment in the case of termination other than for Cause (disregarding such termination).

(c) Vacations. During the Term of Employment the Executive shall be entitled to five weeks of vacation per year, prorated for partial calendar years, to be taken at such times and intervals as he wishes, subject to the reasonable business needs of the Company. The Executive shall be entitled to cash compensation for vacation time not taken only to the extent approved by the

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Board.

(d) Other Benefits. During the Term of Employment the Executive shall be entitled to participate in all employee benefit plans (including insurance plans) of the Company that cover senior executives of the Company generally. The Executive's participation shall be subject to (i) the terms of the applicable plan documents and (ii) generally applicable Company policies. The



Company may alter, modify, supplement or delete its employee benefit plans at any time as it sees fit, without recourse by the Executive.

(e) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable, customary business expenses incurred or paid by the Executive in the performance of the duties and responsibilities of his position, subject to any restrictions on such expenses set by the Board or in Company policies and to such reasonable substantiation and documentation as may be required by the Company.

5. Termination of Employment.

(a) Death. If the Executive dies during the Term of Employment, the Company shall have no further obligations under this Agreement other than to pay to the Executive's estate Base Salary through the end of the calendar month of his death, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group life insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

(b) Disability. The Company may terminate the Executive's employment by written notice in the event that, for any reason, he becomes disabled, either physically or psychologically, and is unable to perform substantially all of his duties and responsibilities under this Agreement for 180 days during any period of 365 consecutive days. In the event of such a termination, the Company shall have no further obligations under this Agreement other than to pay to the Executive Base Salary through the end of the calendar month of his termination, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group disability income insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

The Executive may, and at the request of the Company shall, submit to a medical examination by a physician selected by the Company, to whom the Executive or his duly appointed guardian has no reasonable objection, to determine whether the Executive is disabled. Such determination shall be conclusive. If the Executive fails to submit to such medical examination, the

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Company's determination of the Executive's disability shall be conclusive.

(c) Termination by the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon written notice setting forth in reasonable detail the nature of the Cause. The following, as determined by the Board in its reasonable judgment, will constitute Cause:

(i) fraud, embezzlement or other material dishonesty by the Executive with respect to the Company; or





(ii) the Executive's conviction of, or plea of nolo contendere to, a felony or other crime involving moral turpitude.

Upon termination of the Executive's employment for Cause, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary and any other amounts that have been earned but not paid.

(d) Termination by the Company Other Than for Cause. The Company may terminate the Executive's employment other than for Cause at any time upon written notice. In the event of such termination, the Company shall:

(i) at the election of the Executive, either continue to pay Base Salary and any Stipulated Bonus to the Executive during the remainder of the Term of Employment or pay to him the present value (using the prime rate as reported in The Wall Street Journal on the date of termination to calculate the discount factor) of such Base Salary and any Stipulated Bonus in a lump sum;

(ii) at the election of the Executive, either continue to contribute to the cost of the Executive's participation in the Company's medical and life insurance arrangements during the remainder of the Term of Employment or pay to him in a lump sum the present value (determined as provided in clause (i) above) of the greater of the Company's contribution to such cost or the amount required to purchase individual coverage with substantially equivalent benefits if Executive is no longer eligible to participate in such medical and life insurance arrangements;

(iii) pay to Executive any other compensation hereunder that has been earned but not paid including any Stipulated Bonus; and

(iv) regardless of whether the termination occurs during or after the Term of Employment, treat the Executive as having satisfied the vesting requirements under the SERP and being entitled to his

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retirement benefits as described in Section 5.1 of the SERP and payment of such benefits shall commence immediately without reduction under Section 5.3 of the SERP, notwithstanding any of the provisions of the SERP, and stock options held by Executive that would otherwise become vested during the full Term of Employment shall become immediately vested upon such termination and remain exercisable for the full term of the stock options.

The Company shall have no other obligations under this Agreement. The Executive shall have no obligation to mitigate.

(e) Termination by the Executive.





(i) If the Executive terminates his employment during the Term of Employment because the Company has breached this Agreement by failing to pay Base Salary in accordance with Section 4(a) or failing to pay other compensation or expenses contemplated hereby or because the Company otherwise commits a material breach of its obligations to the Executive hereunder (including the Company's not using its best efforts to cause the Executive to be elected as a director with the result that the Executive ceases to be a director of the Company notwithstanding his willingness to serve, assignment of duties and responsibilities inconsistent with his position, any change in his permanent place of employment or any other action that is materially inconsistent with Executive's position as a senior executive and a director of the Company), the termination shall, for purposes of this Agreement, be treated as a termination by the Company other than for Cause and governed by Section 5(d).

(ii) If the Executive terminates his employment with the Company for any other reason, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary that has been earned but not paid.

(f) Gross-up Payment. The payments and benefits called for by this agreement are not in any way conditioned on a change of ownership or control of the Company. The Company intends such payments and benefits to be reasonable compensation for services rendered by the Executive, and intends that the Executive receive the full economic benefit of such payments and benefits. Therefore, in the event that it is determined that any payment or benefit provided by the Company to or for the benefit of Executive, either under this Agreement or otherwise, will be subject to the excise tax imposed by section 4999 of the Internal Revenue Code or any successor provision ("section 4999"), the Company will, prior to the date on which any amount of the excise tax must be paid or withheld, make an additional lump-sum payment (the "gross-up

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payment") to Executive. The gross-up payment will be sufficient, after giving effect to all federal, state and other taxes and charges (including interest and penalties, if any) with respect to the gross-up payment, to make Executive whole for all taxes (including withholding taxes) and any associated interest and penalties, imposed under or as a result of section 4999.

Determinations under this Section 5(f) will be made by the Company's independent auditors unless Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen by Executive after consultation with the Company (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

If the Internal Revenue Service asserts a claim that, if successful, would require the Company to make a gross-up payment or an additional gross-up payment, the Company and Executive will cooperate fully in resolving the controversy with the Internal Revenue Service.





The Company will make or advance such gross-up payments as are necessary to prevent Executive from having to bear the cost of payments made to the Internal Revenue Service in the course of, or as a result of, the controversy. The Firm will determine the amount of such gross-up payments or advances and will determine after resolution of the controversy whether any advances must be returned by Executive to the Company. The Company will bear all expenses of the controversy and will gross Executive up for any additional taxes that may be imposed upon Executive as a result of its payment of such expenses.

6. Nondisclosure. During the Term of Employment, the Executive may become aware of information which is nonpublic, confidential or proprietary in nature with respect to the Company or with respect to other companies, persons, entities, ventures or business opportunities in which the Company has, or, if it were disclosed to the Company, the Company might have, an interest ("Confidential Information"). All Confidential Information will be kept strictly confidential by the Executive and the Executive shall not: (a) copy, reproduce, distribute or disclose any Confidential Information to any third party except in the course of his employment by the Company; (b) use any Confidential Information for any purpose other than in connection with his employment by the Company; or (c) use any Confidential Information in any way that is detrimental to the Company.

Confidential Information shall not include information which the Executive can demonstrate: (a) is or becomes generally available to the public other than by breach by the Executive of his agreement herein; (b) is disclosed

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by the Executive, pursuant to obligations under law, regulation or court order; or (c) was prior to the Effective Date, or thereafter becomes, known to the Executive on a nonconfidential basis.

Upon termination of the Executive's employment, he shall immediately return or destroy all Confidential Information, including all notes, copies, reproductions, summaries, analyses, or extracts thereof, then in his possession. Such return or destruction shall not abrogate the continuing obligations of the Executive under this Agreement.

In the event that the Executive is requested or required (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, he shall provide the Company with prompt written notice so that it may seek a protective order or other appropriate remedy. In the event such protection or other remedy is not obtained, the Executive shall furnish only that portion of the Confidential Information which he is advised by counsel is legally required and shall exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information.

The Executive agrees that until the expiration of five years from the date of termination of his employment by the Company, he will not without the prior written approval of the Company (i) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, any securities, assets or property of the Company or any of its subsidiaries, whether such agreement or proposal is with the Executive or with a third party, other than shares of





common stock he is entitled to acquire under the terms of this Agreement or any stock option or other employee benefit plan, (ii) propose to enter into, directly or indirectly, any merger or other business combination involving the Company or any of its subsidiaries, (iii) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of the Company or any of its subsidiaries, (iv) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any voting securities of the other party or any of its subsidiaries, (v) otherwise act, alone or in concert with others, to seek to control or influence the management, board of directors or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the foregoing or (vii) advise, encourage, provide assistance (including financial assistance) to or hold discussions with any other persons in connection with any of the foregoing.

The Executive hereby acknowledges that he is aware that the United

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States securities laws prohibit any person who has material, nonpublic information concerning the Company from purchasing or selling securities of the Company or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities. The obligations of the Executive stated in this Section 6 shall, except where expressly limited as to time, continue without limit as to time and without regard to the employment status of the Executive.

7. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which he is a party or is bound and that he is not now subject to any covenants against competition or similar covenants that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

8. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Cost of Enforcement. The Company shall pay reasonable costs and expenses (including fees and expenses of counsel) incurred by the Executive in connection with an action to enforce his rights under this Agreement in which action the Executive prevails.

10. Indemnification. The Company shall, to the maximum extent permitted from time to time under the law of the State of Florida, indemnify and upon request shall advance expenses to the Executive in the event he is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director, officer or employee of the Company or while a director, officer or employee is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of





any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim; provided, however, that the foregoing shall not require the Company to indemnify or advance expenses to the Executive in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of the Executive. The Executive shall be deemed to have met the standard of conduct required for

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such indemnification unless the contrary shall be established. The provisions of this Section 10 shall be in addition to any right of indemnification to which the Executive may be entitled under the Company's charter or by-laws, pursuant to any other contract, or by operation of law.

11. Assignment. Except as provided in this Section 11, neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other. The Company may without the consent of the Executive assign its rights and obligations under this Agreement to any wholly-owned subsidiary of the Company or to any corporation or other business entity into which the Company has merged or with which it has consolidated or which has acquired substantially all of the Company's assets, provided that no such assignment shall relieve the Company of its obligations under this Agreement. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the subject matter hereof. The Executive may have other rights and obligations under other agreements, insurance policies and plans and employee benefit and welfare plans of the Company, including, without limitation, the SERP.

13. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by an expressly authorized representative of the Company.

14. Governing Law. This is a Florida contract and shall be construed and enforced under and be governed in all respects by the laws of the State of Florida.





IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first above written.

| VICTOR A. HUGHES, JR. | KOGER EQUITY, INC. |
|---|---|
| /s/ VICTOR A. HUGHES, Jr. | By: /s/ W. Lawrence Jenkins |

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EXHIBIT 10(f)(2)

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

This is an agreement (the "Agreement") between Koger Equity, Inc. (the "Company"), a Florida corporation with its principal place of business at Jacksonville, Florida, and James C. Teagle of Jacksonville, Florida (the "Executive"), effective as of April 1, 1998 (the "Effective Date").

WHEREAS, the operations of the Company require direction and leadership in a variety of areas;

WHEREAS, the Executive has experience and expertise, including service with the Company as a senior executive, that qualify him to provide that direction and leadership, and the Company therefore wishes to employ him as its President and chief operating officer, and he wishes to accept such employment; and

WHEREAS, the Board of Directors of the Company approved the Employment Agreement dated June 21, 1996, between the Company and the Executive and has approved an extension and amendment of that Employment Agreement as restated herein.

NOW, THEREFORE, the parties agree as follows:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts employment.

2. Term. Subject to earlier termination as provided in Section 5 below, the term of the Executive's employment hereunder (the "Term of Employment") shall be a period starting on April 1,1998, and ending on March 31, 2001, or, if later, the 180th day following the date on which either the Company or the Executive gives written notice to the other that he or it is terminating the Term of Employment under this Agreement. The Term of Employment may be otherwise extended or renewed only by a written agreement signed by the Executive and an expressly authorized representative of the Company.

3. Capacity and Performance. During the Term of Employment, the Executive shall:

(a) serve the Company on a full-time basis as its President and chief operating officer with his principal place of employment at the Company's executive offices in Jacksonville, Florida;

(b) perform such duties and responsibilities on behalf of the Company as may be designated from time to time by the Board of Directors of the Company

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(the "Board") or its chief





executive officer to whom the Executive shall report consistent with the position of President and chief operating officer;

(c) devote substantially all of his business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and to the discharge of his duties and responsibilities under this Agreement, and he shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the Term of Employment, except (i) service as a director of business, industry, trade, professional, governmental or academic organizations which service does not interfere in any material way with the performance of the Executive's duties and responsibilities hereunder; and (ii) as may otherwise be expressly approved by the Board.

(d) The Company agrees to use its best efforts to cause the election of the Executive to the Board during the Term of Employment.

4. Compensation and Benefits.

(a) Base Salary. During the Term of Employment, the Company shall pay the Executive base salary ("Base Salary") at the rate of $230,000 per year, prorated for any partial period. All Base Salary shall be payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board (or its Compensation Committee) in its sole discretion.

(b) Discretionary Bonuses. The Executive will be considered for year-end bonuses if the Company performs well, and will be included with the Chairman and chief executive officer and the Executive Vice President and chief financial officer for such purpose, but the determination whether or not any such bonuses will be paid shall be in the sole discretion of the Compensation Committee of the Board, provided that in the event of the disability or death of Executive or his termination by the Company other than for Cause, Executive shall be paid an amount at least equal to a Stipulated Bonus. A Stipulated Bonus shall be equal to the average bonus paid to Executive in respect of the three years prior to termination for death, disability or other than for Cause (or such lesser time as Executive has been employed by the Company), prorated through the date of termination in the case of death or disability or for the balance of the Term of Employment in the case of termination other than for Cause (disregarding such termination).

(c) Vacations. During the Term of Employment the Executive shall be entitled to five weeks of vacation per year, prorated for partial calendar

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years, to be taken at such times and intervals as he wishes, subject to the reasonable business needs of the Company. The Executive shall be entitled to cash compensation for vacation time not taken only to the extent approved by the Board.

(d) Other Benefits. During the Term of Employment the Executive shall be entitled to participate in all employee benefit plans (including insurance plans) of the Company that cover senior executives of the Company generally. The Executive's participation shall be subject to (i) the terms of the applicable plan documents and (ii) generally applicable Company policies. The





Company may alter, modify, supplement or delete its employee benefit plans at any time as it sees fit, without recourse by the Executive.

(e) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable, customary business expenses incurred or paid by the Executive in the performance of the duties and responsibilities of his position, subject to any restrictions on such expenses set by the Board or in Company policies and to such reasonable substantiation and documentation as may be required by the Company.

5. Termination of Employment.

(a) Death. If the Executive dies during the Term of Employment, the Company shall have no further obligations under this Agreement other than to pay to the Executive's estate Base Salary through the end of the calendar month of his death, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group life insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

(b) Disability. The Company may terminate the Executive's employment by written notice in the event that, for any reason, he becomes disabled, either physically or psychologically, and is unable to perform substantially all of his duties and responsibilities under this Agreement for 180 days during any period of 365 consecutive days. In the event of such a termination, the Company shall have no further obligations under this Agreement other than to pay to the Executive Base Salary through the end of the calendar month of his termination, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group disability income insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

The Executive may, and at the request of the Company shall, submit to a

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medical examination by a physician selected by the Company, to whom the Executive or his duly appointed guardian has no reasonable objection, to determine whether the Executive is disabled. Such determination shall be conclusive. If the Executive fails to submit to such medical examination, the Company's determination of the Executive's disability shall be conclusive.

(c) Termination by the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon written notice setting forth in reasonable detail the nature of the Cause. The following, as determined by the Board in its reasonable judgment, will constitute Cause:

(i) fraud, embezzlement or other material dishonesty by the Executive with respect to the Company; or





(ii) the Executive's conviction of, or plea of nolo contendere to, a felony or other crime involving moral turpitude.

Upon termination of the Executive's employment for Cause, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary and any other amounts that have been earned but not paid.

(d) Termination by the Company Other Than for Cause. The Company may terminate the Executive's employment other than for Cause at any time upon written notice. In the event of such termination, the Company shall:

(i) at the election of the Executive, either continue to pay Base Salary and any Stipulated Bonus to the Executive during the remainder of the Term of Employment or pay to him the present value (using the prime rate as reported in The Wall Street Journal on the date of termination to calculate the discount factor) of such Base Salary and any Stipulated Bonus in a lump sum;

(ii) at the election of the Executive, either continue to contribute to the cost of the Executive's participation in the Company's medical and life insurance arrangements during the remainder of the Term of Employment or pay to him in a lump sum the present value (determined as provided in clause (i) above) of the greater of the Company's contribution to such cost or the amount required to purchase individual coverage with substantially equivalent benefits if Executive is no longer eligible to participate in such medical and life insurance arrangements;

(iii) pay to Executive any other compensation hereunder that has been earned but not paid including any Stipulated Bonus; and

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(iv) regardless of whether the termination occurs during or after the Term of Employment, treat the Executive as having satisfied the vesting requirements under the SERP and being entitled to his retirement benefits as described in Section 5.1 of the SERP and payment of such benefits shall commence immediately without reduction under Section 5.3 of the SERP, notwithstanding any of the provisions of the SERP, and stock options held by Executive that would otherwise become vested during the full Term of Employment shall become immediately vested upon such termination and remain exercisable for the full term of the stock options.

The Company shall have no other obligations under this Agreement. The Executive shall have no obligation to mitigate.

(e) Termination by the Executive.





(i) If the Executive terminates his employment during the Term of Employment because the Company has breached this Agreement by failing to pay Base Salary in accordance with Section 4(a) or failing to pay other compensation or expenses contemplated hereby or because the Company otherwise commits a material breach of its obligations to the Executive hereunder (including the Company's not using its best efforts to cause the Executive to be elected as a director with the result that the Executive ceases to be a director of the Company notwithstanding his willingness to serve, assignment of duties and responsibilities inconsistent with his position, any change in his permanent place of employment or any other action that is materially inconsistent with Executive's position as a senior executive and a director of the Company), the termination shall, for purposes of this Agreement, be treated as a termination by the Company other than for Cause and governed by Section 5(d).

(ii) If the Executive terminates his employment with the Company for any other reason, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary that has been earned but not paid.

(f) Gross-up Payment. The payments and benefits called for by this agreement are not in any way conditioned on a change of ownership or control of the Company. The Company intends such payments and benefits to be reasonable compensation for services rendered by the Executive, and intends that the Executive receive the full economic benefit of such payments and benefits. Therefore, in the event that it is determined that any payment or benefit provided by the Company to or for the benefit of Executive, either under this Agreement or otherwise, will be subject to the excise tax imposed by section

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4999 of the Internal Revenue Code or any successor provision ("section 4999"), the Company will, prior to the date on which any amount of the excise tax must be paid or withheld, make an additional lump-sum payment (the "gross-up payment") to Executive. The gross-up payment will be sufficient, after giving effect to all federal, state and other taxes and charges (including interest and penalties, if any) with respect to the gross-up payment, to make Executive whole for all taxes (including withholding taxes) and any associated interest and penalties, imposed under or as a result of section 4999.

Determinations under this Section 5(f) will be made by the Company's independent auditors unless Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen by Executive after consultation with the Company (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

If the Internal Revenue Service asserts a claim that, if successful, would require the Company to make a gross-up payment or an additional gross-up payment, the Company and Executive will cooperate fully in resolving the controversy with the Internal Revenue Service.





The Company will make or advance such gross-up payments as are necessary to prevent Executive from having to bear the cost of payments made to the Internal Revenue Service in the course of, or as a result of, the controversy. The Firm will determine the amount of such gross-up payments or advances and will determine after resolution of the controversy whether any advances must be returned by Executive to the Company. The Company will bear all expenses of the controversy and will gross Executive up for any additional taxes that may be imposed upon Executive as a result of its payment of such expenses.

6. Nondisclosure. During the Term of Employment, the Executive may become aware of information which is nonpublic, confidential or proprietary in nature with respect to the Company or with respect to other companies, persons, entities, ventures or business opportunities in which the Company has, or, if it were disclosed to the Company, the Company might have, an interest ("Confidential Information"). All Confidential Information will be kept strictly confidential by the Executive and the Executive shall not: (a) copy, reproduce, distribute or disclose any Confidential Information to any third party except in the course of his employment by the Company; (b) use any Confidential Information for any purpose other than in connection with his employment by the Company; or (c) use any Confidential Information in any way that is detrimental to the Company.

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Confidential Information shall not include information which the Executive can demonstrate: (a) is or becomes generally available to the public other than by breach by the Executive of his agreement herein; (b) is disclosed by the Executive, pursuant to obligations under law, regulation or court order; or (c) was prior to the Effective Date, or thereafter becomes, known to the Executive on a nonconfidential basis.

Upon termination of the Executive's employment, he shall immediately return or destroy all Confidential Information, including all notes, copies, reproductions, summaries, analyses, or extracts thereof, then in his possession. Such return or destruction shall not abrogate the continuing obligations of the Executive under this Agreement.

In the event that the Executive is requested or required (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, he shall provide the Company with prompt written notice so that it may seek a protective order or other appropriate remedy. In the event such protection or other remedy is not obtained, the Executive shall furnish only that portion of the Confidential Information which he is advised by counsel is legally required and shall exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information.

The Executive agrees that until the expiration of five years from the date of termination of his employment by the Company, he will not without the prior written approval of the Company (i) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, any securities, assets or property of the Company or any of its subsidiaries, whether such agreement or proposal is with the Executive or with a third party, other than shares of





common stock he is entitled to acquire under the terms of this Agreement or any stock option or other employee benefit plan, (ii) propose to enter into, directly or indirectly, any merger or other business combination involving the Company or any of its subsidiaries, (iii) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of the Company or any of its subsidiaries, (iv) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any voting securities of the other party or any of its subsidiaries, (v) otherwise act, alone or in concert with others, to seek to control or influence the management, board of directors or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the foregoing or (vii) advise, encourage, provide assistance (including financial assistance) to or hold discussions with any other persons

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in connection with any of the foregoing.

The Executive hereby acknowledges that he is aware that the United States securities laws prohibit any person who has material, nonpublic information concerning the Company from purchasing or selling securities of the Company or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities. The obligations of the Executive stated in this Section 6 shall, except where expressly limited as to time, continue without limit as to time and without regard to the employment status of the Executive.

7. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which he is a party or is bound and that he is not now subject to any covenants against competition or similar covenants that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

8. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Cost of Enforcement. The Company shall pay reasonable costs and expenses (including fees and expenses of counsel) incurred by the Executive in connection with an action to enforce his rights under this Agreement in which action the Executive prevails.

10. Indemnification. The Company shall, to the maximum extent permitted from time to time under the law of the State of Florida, indemnify and upon request shall advance expenses to the Executive in the event he is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director, officer or employee of the Company or while a director, officer or employee is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of





any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim; provided, however, that the foregoing shall not require the Company to indemnify

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or advance expenses to the Executive in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of the Executive. The Executive shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established. The provisions of this Section 10 shall be in addition to any right of indemnification to which the Executive may be entitled under the Company's charter or by-laws, pursuant to any other contract, or by operation of law.

11. Assignment. Except as provided in this Section 11, neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other. The Company may without the consent of the Executive assign its rights and obligations under this Agreement to any wholly-owned subsidiary of the Company or to any corporation or other business entity into which the Company has merged or with which it has consolidated or which has acquired substantially all of the Company's assets, provided that no such assignment shall relieve the Company of its obligations under this Agreement. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the subject matter hereof. The Executive may have other rights and obligations under other agreements, insurance policies and plans and employee benefit and welfare plans of the Company, including, without limitation, the SERP.

13. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by an expressly authorized representative of the Company.

14. Governing Law. This is a Florida contract and shall be construed and enforced under and be governed in all respects by the laws of the State of Florida.





IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first above written.

| JAMES C. TEAGLE | KOGER EQUITY, INC. |
| --- | --- |
| /s/ James C. Teagle | By: /s/ W. Lawrence Jenkins |

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EXHIBIT 10(f)(3)

EMPLOYMENT AGREEMENT

This is an agreement (the "Agreement") between Koger Equity, Inc. (the "Company"), a Florida corporation, and David B. Hiley of Ponte Vedra, Florida (the "Executive"), dated as of the 18th of February, 1998, to be effective as of April 1, 1998 (the "Effective Date").

WHEREAS, the operations of the Company require direction and leadership in a variety of areas, including its financial affairs, corporate development and strategic planning;

WHEREAS, the Executive has experience and expertise that qualify him to provide that direction and leadership, and the Company therefore wishes to employ him as its Executive Vice President and chief financial officer, and he wishes to accept such employment; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company and the Board of Directors of the Company have approved this Agreement;

NOW, THEREFORE, the parties agree as follows:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts employment.

2. Term. Subject to earlier termination as provided in Section 5 below, the term of the Executive's employment hereunder (the "Term of Employment") shall be a period starting on April 1, 1998 and ending on the third anniversary of the beginning of the Term of Employment or, if later, the 180th day following the date on which either the Company or the Executive gives written notice to the other that he or it is terminating the Term of Employment under this Agreement. The Term of Employment may be otherwise extended or renewed only by a written agreement signed by the Executive and an expressly authorized representative of the Company.

3. Capacity and Performance. During the Term of Employment, the Executive shall:

(a) serve the Company on a full-time basis as its Executive Vice President and chief financial officer;

(b) perform such duties and responsibilities on behalf of the Company as may be designated from time to time by the Board of Directors of the Company (the "Board") or its chief executive officer to whom the Executive shall report, consistent with the position of Executive Vice President and chief financial

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officer, with executive responsibility for the Company's financial affairs, including accessing of capital markets and strategic acquisitions and divestitures;



(c) devote substantially all of his business time and his best efforts, business judgment, skill and knowledge exclusively to the advancement of the business and interests of the Company and to the discharge of his duties and responsibilities under this Agreement, and he shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the Term of Employment, except (i) service as a director of business, industry, trade, professional, governmental or academic organizations which service does not interfere in any material way with the performance of the Executive's duties and responsibilities hereunder; (ii) service as a consultant or adviser to those companies specified in the letter between the Executive and the Company of even date, so long as such service does not interfere in any material way with the performance of the Executive's duties and responsibilities hereunder; and (iii) as may otherwise be expressly approved in writing in advance by the Board or the chief executive officer.

(d) The Company agrees to use its best efforts to cause the election of the Executive to the Board during the Term of Employment.

4. Compensation and Benefits.

(a) Base Salary. During the Term of Employment, the Company shall pay the Executive base salary ("Base Salary") at the rate of $200,000 per year, prorated for any partial period. All Base Salary shall be payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board (or its Compensation Committee) in its sole discretion.

(b) Equity.

(i) Stock option. As an inducement to his accepting employment by the Company, the Company shall grant to the Executive a ten-year stock option to purchase 125,000 shares of common stock of the Company at a price per share equal to the fair market value of such stock on February 18, 1998. Such option is evidenced by a Stock Option Agreement of even date between the Company and the Executive. The option shall become exercisable as to 41,667 shares on the first anniversary of the date of grant, 41,667 shares on the second anniversary of the Effective Date, and 41,666 shares on the third anniversary.

The following terms shall apply to the option: (1) in the event of the Executive's death the entire option shall become fully

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vested and immediately exercisable and may be exercised for the entire period of the option; (2) in the event the Executive's Employment with the company terminates because of retirement (in accordance with the Company's Employee Policy Manual), the option shall be exercisable in accordance with its terms as though the Executive had remained an employee of the Company; (3) in the event the Executive's employment with the Company is terminated by the Company for "cause," as defined in Section 5(b), the option shall immediately terminate; (4) if the Executive's





employment is terminated by the Company for any reason other than cause, the option shall immediately become fully exercisable and shall remain exercisable in accordance with its terms; (5) if the Executive voluntarily terminates employment with the Company for reasons other than those specified in Section 5(e)(i), the option shall immediately terminate to the extent not then exercisable and shall remain exercisable to the extent then exercisable for a period of 180 days (but not longer than it would have been exercisable had he remained an employee) and shall then terminate; and (6) in the event of a "covered transaction" (as defined below), the option shall as determined by the Board either become exercisable in full commencing 30 days prior to the covered transaction, be canceled in consideration of the issuance of substitute options of another corporation having substantially equivalent value and terms or canceled at the closing of such transaction in consideration of a cash payment equal to the difference between the exercise price of such options and the consideration paid for shares of Company common stock in such transaction (valuing any noncash consideration at fair market value).

(ii) Registration. The grant of options provided for in subpart (i) of this Section 4(b) and the issuance of stock pursuant to the exercise of any such options shall be covered by an effective registration statement of the Company on Form S-8 under the Securities Act of 1933.

(iii) Covered transaction. The term "covered transaction" means a consolidation or merger in which the Company is not the surviving corporation or which results in the acquisition of substantially all the Company's outstanding capital stock by a single person or entity or by a group of persons and/or entities acting in concert or the sale or transfer of substantially all the Company's assets or a dissolution or liquidation of the Company.

(c) Discretionary Bonuses. The Executive will be considered for year-end bonuses if the Company performs well, and will be included with the Chairman and chief executive officer and the President and chief operating

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officer for such purpose, but the determination whether or not any such bonuses will be paid shall be in the sole discretion of the Compensation Committee of the Board, provided that in the event of the disability or death of Executive or his termination by the Company other than for Cause, Executive shall be paid an amount at least equal to a Stipulated Bonus. A Stipulated Bonus shall be equal to the average bonus paid to Executive in respect of the three years prior to termination for death, disability or other than for Cause (or such lesser time as Executive has been employed by the Company), prorated through the date of termination in the case of death or disability or for the balance of the Term of Employment in the case of termination other than for Cause (disregarding such termination).

(d) SERP. As of the Effective Date, the Executive shall become a participant in the SERP and shall be added to a new Schedule E to the SERP, and for purposes of determining the Executive's vesting under Section 3.2(a)(i) of the SERP, the Executive must be employed by the Company for at least three full years instead of five full years.





(e) Vacations. During the Term of Employment the Executive shall be entitled to five weeks of vacation per year, prorated for partial calendar years, to be taken at such times and intervals as he wishes, subject to the reasonable business needs of the Company. The Executive shall be entitled to cash compensation for vacation time not taken only to the extent approved by the Board.

(f) Other Benefits. During the Term of Employment the Executive shall be entitled to participate in all employee benefit plans (including insurance plans) of the Company that cover senior executives of the Company generally. The Executive's participation shall be subject to (i) the terms of the applicable plan documents and (ii) generally applicable Company policies. The Company may alter, modify, supplement or delete its employee benefit plans at any time as it sees fit, without recourse by the Executive.

(g) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable, customary business expenses incurred or paid by the Executive in the performance of the duties and responsibilities of his position, subject to any restrictions on such expenses set by the Board or in Company policies and to such reasonable substantiation and documentation as may be required by the Company. During a transition period commencing on the Effective Date and ending on the earlier of the first anniversary thereof or the Executive's relocation to Jacksonville, the Company will pay or reimburse the Executive for (i) temporary housing in the Jacksonville area, including utilities and insurance, (ii) a rental automobile, including insurance, and (iii) air travel (and related ground travel or parking expense) between Jacksonville and New York.

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(h) Relocation Expenses. The Company shall pay or reimburse the Executive's moving expenses in connection with the relocation of his principal residence to the Jacksonville area. Payment or reimbursement of all such expenses shall be subject to such reasonable documentation as may be required by the Company.

5. Termination of Employment.

(a) Death. Except for obligations under this Agreement which survive the death of the Executive, if the Executive dies during the Term of Employment, the Company shall have no further obligations under this Agreement other than to pay to the Executive's estate Base Salary through the end of the calendar month of his death, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group life insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

(b) Disability. The Company may terminate the Executive's employment by written notice in the event that, for any reason, he becomes disabled, either physically or psychologically, and is unable to perform substantially all of his duties and responsibilities under this Agreement for 180 days during any period of 365 consecutive days. Except for obligations





under this Agreement which survive the death of the Executive, in the event of such a termination, the Company shall have no further obligations under this Agreement other than to pay to the Executive Base Salary through the end of the calendar month of his termination, any Stipulated Bonus as provided for herein, and any other compensation hereunder that has been earned but not paid. The Company agrees to keep in force during the Term of Employment group disability income insurance, substantially equivalent to that in effect generally for the Company's executives on the Effective Date.

The Executive may, and at the request of the Company shall, submit to a medical examination by a physician selected by the Company, to whom the Executive or his duly appointed guardian has no reasonable objection, to determine whether the Executive is disabled. Such determination shall be conclusive. If the Executive fails to submit to such medical examination, the Company's determination of the Executive's disability shall be conclusive.

(c) Termination by the Company for Cause. The Company may terminate the Executive's employment for Cause at any time upon written notice setting forth in reasonable detail the nature of the Cause. The following, as determined by the Board in its reasonable judgment, will constitute Cause:

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(i) fraud, embezzlement or other material dishonesty by the Executive with respect to the Company; or

(ii) the Executive's conviction of, or plea of nolo contendere to, a felony or other crime involving moral turpitude.

Upon termination of the Executive's employment for Cause, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary and any other amounts that have been earned but not paid.

(d) Termination by the Company Other Than for Cause. The Company may terminate the Executive's employment hereunder other than for Cause at any time upon written notice. In the event of such termination, the Company shall:

(i) at the election of the Executive, either continue to pay Base Salary and any Stipulated Bonus to the Executive during the remainder of the Term of Employment or pay to him the present value (using the prime rate as reported in The Wall Street Journal on the date of termination to calculate the discount factor) of such Base Salary and any Stipulated Bonus in a lump sum;

(ii) at the election of the Executive, either continue to contribute to the cost of the Executive's participation in the Company's medical and life insurance arrangements during the remainder of the Term of Employment or pay to him in a lump sum the present value (determined as provided in clause (i) above) of the greater of the Company's contribution to such cost or the amount required to purchase individual coverage with





substantially equivalent benefits if Executive is no longer eligible to participate in such medical and life insurance arrangements;

(iii) pay to Executive any other compensation hereunder that has been earned but not paid including any Stipulated Bonus; and

(iv) regardless of whether the termination occurs during or after the Term of Employment, treat the Executive as having satisfied the vesting requirements under the SERP and being entitled to his retirement benefits as described in Section 5.1 of the SERP and the payment of such benefits shall commence immediately without reduction under Section 5.3 of the SERP notwithstanding any of the provisions of the SERP, and with respect to stock options provided for in Section 4(b) hereof such that options which would otherwise become vested during the full Term of Employment shall become immediately vested upon such termination and be fully exercisable over the full term of the options.

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The Company shall have no other obligations under this Agreement. The Executive shall have no obligation to mitigate.

(e) Termination by the Executive.

(i) If the Executive terminates his employment during the Term of Employment because the Company has breached this Agreement by failing to pay Base Salary in accordance with Section 4(a) or failing to pay other compensation or expenses contemplated hereby or because the Company otherwise commits a material breach of its obligations to the Executive hereunder (including the Company's not using its best efforts to cause the Executive to be elected as a director with the result that the Executive ceases to be a director of the Company notwithstanding his willingness to serve, assignment of duties and responsibilities inconsistent with his position, any change in his permanent place of employment or any other action that is materially inconsistent with Executive's position as a senior executive and a director of the Company), the termination shall, for purposes of this Agreement, be treated as a termination by the Company other than for Cause and governed by Section 5(d).

(ii) If the Executive terminates his employment with the Company for any other reason, the Company shall have no further obligations under this Agreement other than to pay to the Executive any Base Salary that has been earned but not paid.

(f) Gross-up Payment. The payments and benefits called for by this agreement are not in any way conditioned on a change of ownership or control of the Company. The Company intends such payments and benefits to be reasonable compensation for services rendered by the Executive, and intends that the Executive receive the full economic benefit of such payments and benefits. Therefore, in the event that it is determined that any payment or benefit provided by the





Company to or for the benefit of Executive, either under this Agreement or otherwise, will be subject to the excise tax imposed by section 4999 of the Internal Revenue Code or any successor provision ("section 4999"), the Company will, prior to the date on which any amount of the excise tax must be paid or withheld, make an additional lump-sum payment (the "gross-up payment") to Executive. The gross-up payment will be sufficient, after giving effect to all federal, state and other taxes and charges (including interest and penalties, if any) with respect to the gross-up payment, to make Executive whole for all taxes (including withholding taxes) and any associated interest and penalties, imposed under or as a result of section 4999.

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Determinations under this Section 5(f) will be made by the Company's independent auditors unless Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen by Executive after consultation with the Company (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

If the Internal Revenue Service asserts a claim that, if successful, would require the Company to make a gross-up payment or an additional gross-up payment, the Company and Executive will cooperate fully in resolving the controversy with the Internal Revenue Service. The Company will make or advance such gross-up payments as are necessary to prevent Executive from having to bear the cost of payments made to the Internal Revenue Service in the course of, or as a result of, the controversy. The Firm will determine the amount of such gross-up payments or advances and will determine after resolution of the controversy whether any advances must be returned by Executive to the Company. The Company will bear all expenses of the controversy and will gross Executive up for any additional taxes that may be imposed upon Executive as a result of its payment of such expenses.

6. Nondisclosure. During the Term of Employment, the Executive may become aware of information which is nonpublic, confidential or proprietary in nature with respect to the Company or with respect to other companies, persons, entities, ventures or business opportunities in which the Company has, or, if it were disclosed to the Company, the Company might have, an interest ("Confidential Information"). All Confidential Information will be kept strictly confidential by the Executive and the Executive shall not: (a) copy, reproduce, distribute or disclose any Confidential Information to any third party except in the course of his employment by the Company; (b) use any Confidential Information for any purpose other than in connection with his employment by the Company; or (c) use any Confidential Information in any way that is detrimental to the Company.

Confidential Information shall not include information which the Executive can demonstrate: (a) is or becomes generally available to the public other than by breach by the Executive of his agreement herein; (b) is disclosed by the Executive, pursuant to obligations





under law, regulation or court order; or (c) was prior to the Effective Date, or thereafter becomes, known to the Executive on a nonconfidential basis.

Upon termination of the Executive's employment, he shall immediately return or destroy all Confidential Information, including all notes, copies,

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reproductions, summaries, analyses, or extracts thereof, then in his possession. Such return or destruction shall not abrogate the continuing obligations of the Executive under this Agreement.

In the event that the Executive is requested or required (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any Confidential Information, he shall provide the Company with prompt written notice so that it may seek a protective order or other appropriate remedy. In the event such protection or other remedy is not obtained, the Executive shall furnish only that portion of the Confidential Information which he is advised by counsel is legally required and shall exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information.

The Executive agrees that until the expiration of five years from the date of termination of his employment by the Company, he will not without the prior written approval of the Company (i) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, any securities, assets or property of the Company or any of its subsidiaries, whether such agreement or proposal is with the Executive or with a third party, other than shares of common stock he is entitled to acquire under the terms of this Agreement or any stock option or other employee benefit plan, (ii) propose to enter into, directly or indirectly, any merger or other business combination involving the Company or any of its subsidiaries, (iii) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of the Company or any of its subsidiaries, (iv) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any voting securities of the other party or any of its subsidiaries, (v) otherwise act, alone or in concert with others, to seek to control or influence the management, board of directors or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the foregoing or (vii) advise, encourage, provide assistance (including financial assistance) to or hold discussions with any other persons in connection with any of the foregoing.

The Executive hereby acknowledges that he is aware that the United States securities laws prohibit any person who has material, nonpublic information concerning the Company from purchasing or selling securities of the Company or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities. The obligations of the Executive stated in this Section 6 shall, except where expressly limited as to time, continue without limit as to time and without regard to the employment status of the Executive.



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7. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which he is a party or is bound and that he is not now subject to any covenants against competition or similar covenants that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

8. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Cost of Enforcement. The Company shall pay reasonable costs and expenses (including fees and expenses of counsel) incurred by the Executive in connection with an action to enforce his rights under this Agreement in which action the Executive prevails.

10. Indemnification. The Company shall, to the maximum extent permitted from time to time under the law of the State of Florida, indemnify and upon request shall advance expenses to the Executive in the event he is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director, officer or employee of the Company or while a director, officer or employee is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim; provided, however, that the foregoing shall not require the Company to indemnify or advance expenses to the Executive in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of the Executive. The Executive shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established. The provisions of this Section 10 shall be in addition to any right of indemnification to which the Executive may be entitled under the Company's charter or by-laws, pursuant to any other contract, or by operation of law.

11. Assignment. Except as provided in this Section 11, neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other. The Company may without the consent of the Executive assign its rights and obligations under this Agreement to any wholly-owned subsidiary of the Company or to any corporation or other business entity into which the Company has merged or with which it has consolidated or which has acquired substantially all of the Company's assets, provided that no such

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assignment shall relieve the Company of its obligations under this Agreement. This Agreement shall inure to the benefit of





and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior communications, agreements and understandings, written or oral, with respect to the subject matter hereof. The Executive may have other rights and obligations under other agreements, insurance policies and plans and employee benefit and welfare plans of the Company, including, without limitation, the SERP.

13. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by an expressly authorized representative of the Company.

14. Governing Law. This is a Florida contract and shall be construed and enforced under and be governed in all respects by the laws of the State of Florida.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first above written.

DAVID B. HILEY

/s/ David B. Hiley

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KOGER EQUITY, INC.

By: /s/ Victor A. Hughes, Jr.

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Chairman and Chief Executive Officer



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EXHIBIT 11

EARNINGS PER SHARE COMPUTATIONS
(IN THOUSANDS EXCEPT PER SHARE DATA)

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| EARNING PER COMMON AND DILUTIVE POTENTIAL COMMON SHARE: | | | |
| Income Before Extraordinary Item | $29,602 | $21,662 | $11,887 |
| Net Income | $29,602 | $21,204 | $10,501 |
| Shares: | | | |
| Weighted average number of common shares outstanding - Basic | 26,294 | 21,374 | 18,523 |
| Effect of dilutive securities (a): | | | |
| Stock options | 607 | 736 | 536 |
| Warrants | | 385 | 441 |
| Adjusted common shares - Diluted | 26,901 | 22,495 | 19,500 |
| EARNINGS PER SHARE - DILUTED: | | | |
| Income Before Extraordinary Item | $ 1.10 | $ 0.96 | $ 0.61 |
| Net Income | $ 1.10 | $ 0.94 | $ 0.54 |

(a) Shares issuable were derived using the "Treasury Stock Method" for all dilutive potential shares.

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

<TABLE>
<CAPTION>

| NAME OF SUBSIDIARIES* | STATE OF INCORPORATION |
| --- | --- |
| <S> | <C> |
| Koger Real Estate Services, Inc. | Florida |
| Southeast Properties Holding Corporation, Inc. | Florida |

</TABLE>

* These subsidiaries are wholly owned by Koger Equity, Inc

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EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-55179 of Koger Equity, Inc. on Form S-3, Registration Statement No. 33-54617 of Koger Equity, Inc. on Form S-8, Registration Statement No. 333-20975 of Koger Equity, Inc. on Form S-3, Registration Statement No. 333-23429 of Koger Equity, Inc. on Form S-8, and Registration Statement No. 333-37919 of Koger Equity, Inc. on Form S-3 of our report dated February 12, 1999, appearing in this Annual Report on Form 10-K of Koger Equity, Inc. for the year ended December 31, 1998.

DELOITTE & TOUCHE LLP
Jacksonville, Florida
March 24, 1999

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