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# TO OUR STOCKHOLDERS

## Fiscal Year and Accomplishments

This fiscal year was truly a foundation-building year for Burke Properties, Inc. Fueled by a continued strong economy and robust commercial real estate markets, we significantly increased our revenues and earnings, strengthened our balance sheet, and put in place a solid platform from which we can now aggressively implement our long-term growth strategy.

Among our fiscal accomplishments, we:

Achieved an almost six-fold increase in net income before non-recurring items, to $10.6 million from $1 million a year ago;

Completely eliminated our long-term debt, which was $20.2 million last fiscal year;

Improved our stockholders’ equity to $10.7 million from a negative net worth of $24.3 million;

Increased our management portfolio to more than 87 million square feet under management at year-end from 60 million square feet; and

Increased our market capitalization to $275.3 million at June 30, from $27.6 million at the same time last year.

To put the year in broader perspective, this year marked the Company’s fifth consecutive year of profitability after a difficult period in the beginning due to extremely challenging market conditions. Rather than simply ride the wave of a recovering real estate marketplace and reap short-term rewards, we worked diligently during the year to take steps that will position the Company for continuous, long-term growth.

## Strategy

Our strategy has been -- and will continue to be -- to build upon Burke Properties’ historic strength in transaction services while strengthening and expanding our other service lines. More than providing the Company with expanded sources of revenue, we anticipate that the recurring, fee-based income generated by our non-transactional businesses will mitigate the impact of market cycles on our results over the long term.

# REVIEW OF YEAR RESULTS

## Financial

For the fiscal year ended June 30, total revenue increased 15% to $200.5 million from $174.3 million last year. Excluding non-recurring items, earnings before interest expense, income taxes, depreciation and amortization- a widely used measure of a company’s ability to generate cash flow from operations- rose 127% to $15.3 million from $5.2 million a year ago.

Excluding a deferred tax benefit and other non-recurring expenses and extraordinary items, net income for the year was $10.6 million, an increase over the $1 million recorded last year. Fully diluted earnings per share on this basis increased to $.58 per fully diluted share, vs. $1.8 million, or a loss of $.08 per share, last year.

Non-recurring items in this fiscal year totaled $5.7 million. These include: a gain on the payoff of debt, net of taxes, of $4.6 million; other non-recurring expenses of $1.8 million relating primarily to the relocation of our corporate offices; and a deferred tax benefit of $3.1 million, reflecting the benefit from our net operating loss carry-forward recognized in the fourth quarter of this fiscal year.

The Company has additional net operating losses as of June 30, which are available to offset taxable income in future years.

We also significantly strengthened our balance sheet this year, in large part due to the completion of two common stock transactions that raised aggregate gross proceeds of $18.75 million of equity capital from two strategic investors. As a result, all the Company’s long-term debt was retired, all convertible preferred stock was either retired or converted into common stock, and all historical accrued but undeclared dividends on convertible preferred stock were forgiven.

Additionally, the Company secured a $13 million revolving credit facility that is available to fund new initiatives expected to strengthen and expand our service lines.

# TAKING ADVANTAGE OF OPPORTUNITES IN TODAY’S MARKET

## Organizational Structure

This year, we put in place a new organizational structure that better reflects how Burke Properties is meeting the increased demand for the full spectrum of commercial real estate services from a single provider. In addition to transaction services and management services, we offer clients a variety of financial services and strategic services. All four service areas are explained in the opening pages of this report.

For the fiscal year, revenue generated by Relocation Services was up nearly 18% as we continued to take advantage of the market’s recovery to capture additional businesses. In Commercial Services, we saw a substantial increase in management and leasing activity, adding approximately 22 million square feet to our commercial portfolio. Our goal is to have an additional 80 million square feet, a total of 102 million square feet, by end of the next fiscal year for our commercial portfolio.

We also combined Jersey Real Estate Management, Inc., a wholly owned subsidiary, and the Company’s property management and leasing services capabilities under one name: Burke Properties, Inc. We believe the synergies created by this new structure should lead to significant opportunities for cross-selling services and expanding into new geographic markets.

# POSITIONING FOR LONG-TERM GROWTH

## Investment

This year we launched several initiatives designed to help meet our goal of enhancing the quality of the Company’s service lines and expanding and diversifying sources of revenue beyond traditional commercial brokerage. These include:

### An Investment in Client Service

We established the Corporate Relocation Group and Institutional Services Group to allow the Company to respond to the increasing demand from major corporate and institutional clients for expanded services through a single point of contact.

We expect these innovative relationship management groups to be key in helping the Company establish more secure, long-term client relationships that can generate a stable, consistent stream of revenue across all service lines.

We also launched a national affiliate program, which enables the Company to enter markets where it previously did not have a formal presence and to better meet the multi-market needs of national clients.

To date, the Company has formed alliances with 17 independent brokerage firms with a presence in 20 markets, as noted on the inside back cover of this report. Our goal is for Burke Properties to have internal and affiliated offices in 150 markets within the next two years.

### An Investment in Infrastructure

We are investing in technology systems designed to keep the Company competitive in future years. Among them is a state-of-the-art, company-wide information sharing and research network -- an intranet -- to be rolled out over the next 12 to 18 months, which will enable Burke professionals across all offices to work smarter and more efficiently as a team, access the latest market intelligence, and more fully address our clients’ needs.

Also, we moved[[1]](#footnote-1) our corporate headquarters operation from New York to Kansas City, Kansas, in the third quarter of the year -- a feat that was accomplished without any business interruption. By relocating to the Midwest, Burke senior management team is now in closer proximity to a larger number of corporate and institutional clients, allowing us to stay in closer touch with client needs and requirements. The relocation also enhances the Company’s ability to provide support to Burke Properties’ offices around the country.

### An Investment in Talent

In consolidating industry, we have taken advantage of the opportunity to bring on board a significant number of top professionals who will help drive growth in our core businesses. As a service company, we believe people are our single most important asset. By hiring highly talented people and instituting a strong company-wide culture of teamwork, quality and a dedication to client service, we are building a great company.

# OUTLOOK

## Future Objectives

In the year ahead, we expect to build upon the momentum we achieved in this fiscal year by continuing to implement our long-term growth strategy, which includes:

Developing long-term relationships with key corporations and the top institutional owners of real estate nationwide;

Building a broader, more cohesive system of offices under the Burke Properties name and expanding services for clients with needs in currently underserved markets;

Leveraging our historic strength in transaction services to cross-sell other Burke services to generate recurring, fee-based income; and

Capitalizing on leasing opportunities where the Company is currently only providing property management services, and vice versa.

To supplement internal growth, we plan to actively explore strategic acquisition opportunities that enhance our ability to provide the highest level of service to our clients. Our strategy is to pursue acquisitions that have the potential to broaden the Company’s geographic reach, expand the depth and breadth of our current service line offerings, and add selected new services we believe are essential to servicing our clients today and in the future.

**PROJECTED SALES GRAPH**

1. effective April 1 [↑](#footnote-ref-1)