

ASSOCIATED ESTATES REALTY CORP
Form 10-Q
October 30, 2007

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

Form 10-Q

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

For the quarterly period ended September 30, 2007

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 1-12486

Associated Estates Realty Corporation

(Exact name of registrant as specified in its charter)

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

34-1747603
*(I.R.S. Employer
Identification Number)*

1 AEC Parkway, Richmond Hts., Ohio 44143-1467

(Address of principal executive offices)

(216) 261-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding as of October 25, 2007 was 16,354,789 shares

ASSOCIATED ESTATES REALTY CORPORATION

INDEX

PART I - FINANCIAL INFORMATION		Page
ITEM 1	Consolidated Financial Statements (Unaudited)	-
	<u>Consolidated Balance Sheets</u> at September 30, 2007 and December 31, 2006	3
	<u>Consolidated Statements of Operations</u> for the three and nine month periods ended September 30, 2007 and 2006	4
	<u>Consolidated Statement of Shareholders' Equity</u> for the nine month period ended September 30, 2007	5
	<u>Consolidated Statements of Cash Flows</u> for the nine month periods ended September 30, 2007 and 2006	6
	<u>Notes to Consolidated Financial Statements</u>	7
ITEM 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
ITEM 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
ITEM 4	<u>Controls and Procedures</u>	26
PART II - OTHER INFORMATION		
ITEM 1	<u>Legal Proceedings</u>	27
ITEM 1A	<u>Risk Factors</u>	27
ITEM 2	<u>Unregistered Sales of Equity Securities</u> and Use of Proceeds	27
ITEM 6	<u>Exhibits</u>	28
SIGNATURES		31

PART 1. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share amounts)

	September 30, 2007	December 31, 2006
ASSETS		
Real estate assets		
Land	\$ 109,192	\$ 92,341
Buildings and improvements	830,914	751,393
Furniture and fixtures	29,600	28,126
	969,706	871,860
Less: accumulated depreciation	(299,632)	(281,994)
	670,074	589,866
Construction in progress	1,448	1,323
Real estate associated with property held for sale, net	-	331
Real estate, net	671,522	591,520
Cash and cash equivalents	4,783	30,010
Restricted cash	6,916	7,279
Accounts and notes receivable, net		
Rents	1,103	1,582
Affiliates	1,457	322
Other	2,080	1,955
Investments in joint ventures, net	-	5,247
Goodwill	1,725	1,725
Other assets, net	16,531	9,155
Other assets associated with property held for sale, net	-	34
Total assets	\$ 706,117	\$ 648,829
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgage notes payable	\$ 511,693	\$ 472,854
Unsecured revolving credit facility	24,990	-
Unsecured debt	25,780	25,780
Total debt	562,463	498,634
Accounts payable, accrued expenses and other liabilities	26,590	24,568
Dividends payable	2,905	2,934
Resident security deposits	3,849	3,601
Funds held on behalf of managed properties - affiliates	313	200
Funds held on behalf of managed properties - other	4,600	1,978
Accrued interest	3,136	2,992
Accumulated losses in excess of investments in joint ventures	1,358	-
Other liabilities associated with property held for sale	-	20
Total liabilities	605,214	534,927
Operating partnership minority interest	1,829	1,851
Shareholders' equity		
Preferred shares, without par value; 9,000,000 shares authorized; 8.70% Class B Series II cumulative redeemable, \$250 per share liquidation preference, 232,000 issued and 220,850 and 232,000 outstanding at September 30, 2007 and December 31, 2006, respectively	55,213	58,000

Edgar Filing: ASSOCIATED ESTATES REALTY CORP - Form 10-Q

Common shares, without par value, \$.10 stated value; 41,000,000 authorized; 22,995,763 issued and 16,907,989 and 17,261,224 outstanding at September 30, 2007 and December 31, 2006, respectively	2,300	2,300
Paid-in capital	280,709	280,369
Accumulated distributions in excess of accumulated net income	(178,795)	(173,962)
Accumulated other comprehensive loss	(226)	(71)
Less: Treasury shares, at cost, 6,087,774 and 5,734,539 shares at September 30, 2007 and December 31, 2006, respectively	(60,127)	(54,585)
Total shareholders' equity	99,074	112,051
Total liabilities and shareholders' equity	\$ 706,117	\$ 648,829

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>(In thousands, except per share amounts)</i>	2007	2006	2007	2006
Revenue				
Property revenue	\$ 36,346	\$ 32,053	\$ 103,196	\$ 94,138
Management and service company revenue:				
Fees, reimbursements and other	2,462	2,914	8,304	9,173
Painting services	560	216	1,797	810
Total revenue	39,368	35,183	113,297	104,121
Expenses				
Property operating and maintenance	16,961	14,717	46,865	43,993
Depreciation and amortization	9,278	7,513	24,258	22,690
Direct property management and service company expenses	2,931	3,188	9,802	9,911
Painting services	498	272	1,651	1,021
General and administrative	2,463	2,679	7,873	7,672
Total expenses	32,131	28,369	90,449	85,287
Operating income	7,237	6,814	22,848	18,834
Interest income	57	96	401	585
Interest expense	(10,071)	(16,855)	(31,873)	(41,492)
(Loss) income before equity in net loss of joint ventures, minority interest and income from discontinued operations	(2,777)	(9,945)	(8,624)	(22,073)
Equity in net loss of joint ventures	(31)	(139)	(247)	(387)
Minority interest in operating partnership	(13)	(15)	(40)	(47)
(Loss) income from continuing operations	(2,821)	(10,099)	(8,911)	(22,507)
Income from discontinued operations:				
Operating income (loss)	-	31	(274)	(1,945)
Gain on disposition of properties	-	3,397	17,043	38,120
Income from discontinued operations	-	3,428	16,769	36,175
Net (loss) income	(2,821)	(6,671)	7,858	13,668
Preferred share dividends	(1,201)	(1,262)	(3,724)	(3,785)
Preferred share repurchase costs	-	-	(172)	-
Net (loss) income applicable to common shares	\$ (4,022)	\$ (7,933)	\$ 3,962	\$ 9,883
Earnings per common share - basic and diluted:				
(Loss) income from continuing operations applicable to common shares	\$ (0.24)	\$ (0.67)	\$ (0.75)	\$ (1.55)
Income from discontinued operations	-	0.20	0.98	2.13
Net (loss) income applicable to common shares	\$ (0.24)	\$ (0.47)	\$ 0.23	\$ 0.58
Dividends declared per common share	\$ 0.17	\$ 0.17	\$ 0.51	\$ 0.51
Weighted average number of common shares				