

ASSOCIATED ESTATES REALTY CORP  
Form 10-Q  
August 04, 2009

**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 June 30, 2009**

**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (subsection 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company

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 July 27, 2009 was 16,705,327 shares.



**ASSOCIATED ESTATES REALTY CORPORATION**

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**PART 1. FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**ASSOCIATED ESTATES REALTY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

(Thousands, except share amounts)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Real estate assets		
Land	\$ 107,815	\$ 110,2
Buildings and improvements	790,862	812,4
Furniture and fixtures	28,899	29,3
	927,576	951,9
Less: accumulated depreciation	(286,246)	(280,5
	641,330	671,4
Construction in progress	3,927	7
Real estate associated with property held for sale, net	-	1,6
Real estate, net	645,257	673,8
Cash and cash equivalents	4,321	3,5
Restricted cash	7,862	6,8
Accounts and notes receivable, net		
Accounts receivable	1,056	1,3
Accounts payable	455	6
Other	2,756	1,8
Goodwill	1,725	1,7
Other assets, net	7,962	10,1
<b>Total assets</b>	<b>\$ 671,394</b>	<b>\$ 699,8</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Mortgage notes payable	\$ 489,135	\$ 510,2
Secured revolving credit facility	10,000	21,5
Secured debt	25,780	25,7
Unsecured debt	524,915	557,4
Accounts payable, accrued expenses and other liabilities	25,202	26,2
Dividends payable	2,979	2,9
Resident security deposits	3,211	3,3
Accrued interest	2,251	2,4
<b>Total liabilities</b>	<b>558,558</b>	<b>592,4</b>
Noncontrolling redeemable interest	1,829	1,8
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 193,050 outstanding at June 30, 2009 and December 31, 2008, respectively	48,263	48,2
Common shares, without par value, \$.10 stated value; 41,000,000 authorized; 22,995,763 issued and 17,053,327 and 16,556,221 outstanding at June 30, 2009 and December 31, 2008, respectively	2,300	2,3
Additional paid-in capital	282,480	282,5
Accumulated distributions in excess of accumulated net income	(155,560)	(159,5
Accumulated other comprehensive loss	(2,150)	(2,8
Less: Treasury shares, at cost, 6,290,436 and 6,439,542 shares		

June 30, 2009 and December 31, 2008, respectively

**al shareholders' equity**

(64,326) (64,9

111,007 105,6

**al liabilities and shareholders' equity**

\$ 671,394 \$ 699,8

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

**ASSOCIATED ESTATES REALTY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
<b>Revenue</b>				
Property revenue	\$ 32,138	\$ 32,166	\$ 63,962	\$ 62,390
Management and service company revenue:				
Fees, reimbursements and other	357	397	825	950
Painting services	253	188	350	325
Total revenue	32,748	32,751	65,137	63,665
<b>Expenses</b>				
Property operating and maintenance	13,812	13,711	27,566	26,377
Depreciation and amortization	8,587	9,167	17,795	17,421
Direct property management and service company expense	348	398	708	793
Painting services	322	277	535	520
General and administrative	3,165	3,183	6,304	6,711
Total expenses	26,234	26,736	52,908	51,822
Operating income	6,514	6,015	12,229	11,843
Interest income	18	92	33	106
Interest expense	(8,736)	(8,784)	(16,919)	(17,611)
(Loss) income before gain on insurance recoveries, equity in net loss of joint ventures and income from discontinued operations	(2,204)	(2,677)	(4,657)	(5,662)
Gain on insurance recoveries	544	-	544	-
Equity in net loss of joint ventures	-	(23)	-	(45)
(Loss) income from continuing operations	(1,660)	(2,700)	(4,113)	(5,707)
Income from discontinued operations:				
Operating income (loss)	267	241	569	(1,003)
Gain on disposition of properties	13,135	2,293	15,413	45,203
Income from discontinued operations	13,402	2,534	15,982	44,200
<b>Net income (loss)</b>	11,742	(166)	11,869	38,493
Net loss attributable to noncontrolling redeemable interest	(14)	(13)	(27)	(27)
<b>Net income (loss) attributable to AERC</b>	11,728	(179)	11,842	38,466
Preferred share dividends	(1,049)	(1,201)	(2,100)	(2,402)
Allocation to participating securities	(429)	-	(482)	(768)
<b>Net income (loss) applicable to common shares</b>	\$ 10,250	\$ (1,380)	\$ 9,260	\$ 35,296
<b>Earnings per common share - basic and diluted:</b>				
(Loss) income from continuing operations applicable to common shares	\$ (0.16)	\$ (0.24)	\$ (0.38)	\$ (0.50)
Income from discontinued operations	0.78	0.15	0.94	2.68
Net income (loss) applicable to common shares	\$ 0.62	\$ (0.09)	\$ 0.56	\$ 2.18
<b>Dividends declared per common share</b>	\$ 0.17	\$ 0.17	\$ 0.34	\$ 0.34
<b>Weighted average number of common shares outstanding - basic and diluted</b>	16,528	16,200	16,481	16,184

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

**ASSOCIATED ESTATES REALTY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended June 30,	
<i>(In thousands)</i>	2009	2008
<b>Cash flow from operations:</b>		
Net income	\$ 11,869	\$ 38,493
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization (including discontinued operations)	18,269	18,764
Loss on fixed asset replacements write-off	5	38
Gain on disposition of properties	(15,413)	(45,203)
Gain on insurance recoveries	(544)	-
Amortization of deferred financing costs and other	624	664
Share-based compensation	1,049	996
Equity in net loss of joint ventures	-	45
Net change in assets and liabilities:		
Accounts and notes receivable	408	1,505
Accounts payable and accrued expenses	(974)	(4,926)
Other operating assets and liabilities	1,011	858
Restricted cash	(989)	(150)
Total adjustments	3,446	(27,409)
Net cash flow provided by operations	15,315	11,084
<b>Cash flow from investing activities:</b>		
Recurring fixed asset additions	(3,872)	(3,756)
Revenue enhancing/non-recurring fixed asset additions	(691)	(360)
Acquisition fixed asset additions	(1,514)	(34,310)
Net proceeds from disposition of operating properties	32,714	88,357
Net cash flow provided by investing activities	26,637	49,931
<b>Cash flow from financing activities:</b>		
Principal amortization payments on mortgage notes payable	(1,421)	(1,407)
Principal repayments of mortgage notes payable	(72,096)	(42,851)
Payment of debt procurement costs	(686)	(601)
Proceeds from mortgage notes obtained	52,450	-
Revolver borrowings	95,400	77,850
Revolver repayments	(106,900)	(84,750)
Common share dividends paid	(5,625)	(5,534)
Preferred share dividends paid	(2,100)	(2,402)
Operating partnership distributions paid	(27)	(27)
Purchase of preferred and/or treasury shares	(177)	(217)
Net cash flow used for financing activities		