

ARDEN REALTY INC  
Form 10-Q  
November 13, 2003

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**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 quarter ended September 30, 2003

Commission file number 1-12193

**ARDEN REALTY, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**95-4578533**

(I.R.S. Employer Identification No.)

**11601 Wilshire Boulevard,  
4th Floor**

**Los Angeles, California 90025-1740**

(Address and zip code of principal executive offices)

Registrant's telephone number, including area code: (310) 966-2600

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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of November 12, 2003 there were 64,242,448 shares of the registrant's common stock, \$.01 par value, issued and outstanding.

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**Arden Realty, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share amounts)

	September 30, 2003	December 31, 2002
	(unaudited)	
<b>Assets</b>		
Investment in real estate:		
Land	\$ 467,096	\$ 467,096
Buildings and improvements	2,107,298	2,102,500
Tenant improvements and leasing commissions	336,404	314,556
	2,910,798	2,884,152
Less: accumulated depreciation and amortization	(438,770)	(377,005)
	2,472,028	2,507,147
Properties under development	71,659	65,296
Land available for development	23,701	23,731
Properties held for disposition, net	70,970	145,450
	2,638,358	2,741,624
Net investment in real estate	2,638,358	2,741,624
Cash and cash equivalents	18,292	4,063
Restricted cash	23,550	20,498
Rent and other receivables, net of allowance of \$4,633 and \$4,001 at September 30, 2003 and December 31, 2002, respectively	2,193	2,917
Deferred rent	43,889	43,646
Prepaid financing costs, expenses and other assets, net of amortization	19,506	19,661
	\$2,745,788	\$2,832,409
<b>Liabilities</b>		
Mortgage loans payable	\$ 566,912	\$ 570,654
Unsecured lines of credit	150,000	208,587
Unsecured term loan	125,000	125,000
Unsecured senior notes, net of discount	498,350	498,063
Accounts payable and accrued expenses	58,308	55,705
Security deposits	22,144	20,645
Dividends payable	32,427	31,807
	1,453,141	1,510,461
Total liabilities	1,453,141	1,510,461
Minority interest	72,726	74,571
<b>Stockholders Equity</b>		
Preferred stock, \$.01 par value 20,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 100,000,000 shares authorized, 64,212,448 and 62,984,217 issued and outstanding at September 30, 2003 and December 31, 2002, respectively	644	631

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Additional paid-in capital	1,238,787	1,260,773
Deferred compensation	(15,757)	(11,259)
Accumulated other comprehensive loss	(3,753)	(2,768)
	<u>          </u>	<u>          </u>
Total stockholders' equity	1,219,921	1,247,377
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$2,745,788	\$2,832,409
	<u>          </u>	<u>          </u>

*See accompanying notes to consolidated financial statements.*

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**Arden Realty, Inc.**  
**Consolidated Statements of Income**  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Property revenues	\$ 104,858	\$ 99,060	\$ 308,488	\$ 293,247
Property operating expenses	35,255	32,988	99,372	90,744
	69,603	66,072	209,116	202,503
General and administrative expenses	4,697	3,323	12,574	9,234
Interest expense	23,953	22,403	70,242	65,384
Depreciation and amortization	30,578	26,368	88,573	79,056
Interest and other income	(121)	(524)	(631)	(1,576)
Income from continuing operations before gain on sale of properties and minority interest	10,496	14,502	38,358	50,405
Gain on sale of operating properties				1,273
Income from continuing operations before minority interest	10,496	14,502	38,358	51,678
Minority interest	(1,319)	(1,424)	(4,153)	(4,518)
Income from continuing operations	9,177	13,078	34,205	47,160
Discontinued operations, net of minority interest	1,364	2,035	5,295	6,713
Gain on sale of discontinued properties			5,382	
Net income	\$ 10,541	\$ 15,113	\$ 44,882	\$ 53,873
Basic net income per common share:				
Income from continuing operations	\$ 0.15	\$ 0.20	\$ 0.54	\$ 0.73
Income from discontinued operations	0.02	0.03	0.17	0.11
Net income per common share basic	\$ 0.17	\$ 0.23	\$ 0.71	\$ 0.84
Weighted average number of common shares basic	63,635	64,586	63,296	64,440
Diluted net income per common share:				
Income from continuing operations	\$ 0.14	\$ 0.20	\$ 0.54	\$ 0.73
Income from discontinued operations	0.02	0.03	0.17	0.10
Net income per common share diluted	\$ 0.16	\$ 0.23	\$ 0.71	\$ 0.83
Weighted average number of common shares diluted	64,050	64,790	63,516	64,695

*See accompanying notes to consolidated financial statements.*





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**Arden Realty, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2003	2002
<b>Operating Activities:</b>		
Net income	\$ 44,882	\$ 53,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest, including discontinued operations	4,441	4,701
Gain on sale of operating properties		(1,273)
Gain on sale of discontinued properties	(5,382)	
Depreciation and amortization, including discontinued operations	90,775	82,855
Amortization of loan costs	3,058	2,814
Non-cash compensation expense	1,409	875
Changes in operating assets and liabilities:		
Rent and other receivables	724	6,735
Deferred rent	(243)	(3,851)
Prepaid financing costs, expenses and other assets	(1,381)	(2,666)
Accounts payable and accrued expenses	1,589	8,979
Security deposits	1,499	595
	141,371	153,637
<b>Investing Activities:</b>		
Improvements to commercial properties	(61,797)	(85,419)
Acquisition of properties		(134,938)
Proceeds from sale of properties	78,719	21,919
	16,922	(198,438)
<b>Financing Activities:</b>		
Proceeds from term loan		125,000
Repayments of mortgage loans	(3,742)	(2,056)
Proceeds from unsecured lines of credit	66,500	182,737
Repayments of unsecured lines of credit	(125,087)	(188,500)
Proceeds from issuance of common stock	22,780	8,358
Repurchases of common stock		(5,723)
Distributions to preferred operating partnership unit holders	(3,234)	(3,234)
Increase in restricted cash	(3,052)	(3,293)
Distributions to minority interests	(2,590)	(2,660)
Dividends paid	(95,639)	(96,581)
	(144,064)	14,048
Net increase (decrease) in cash and cash equivalents	14,229	(30,753)
Cash and cash equivalents at beginning of period	4,063	37,041
	\$ 18,292	\$ 6,288

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Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for interest	\$ 72,236	\$ 69,024
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*See accompanying notes to consolidated financial statements.*

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**Arden Realty, Inc.**  
**Notes to Consolidated Condensed Financial Statements**  
**September 30, 2003**  
**(unaudited)**

**1. Description of Business**

The terms Arden Realty, us, we and our as used in this report refer to Arden Realty, Inc. Through our controlling interest in Arden Realty Limited Partnership, or the Operating Partnership, and our other subsidiaries, we own, manage, lease, develop, renovate and acquire commercial office properties located in Southern California. As of September 30, 2003, our portfolio was comprised of 131 primarily suburban office properties, consisting of 217 buildings with approximately 18.9 million net rentable square feet including one development project with approximately 283,000 net rentable square feet currently under lease-up. As of September 30, 2003, excluding the development project which was 9% occupied, our portfolio was 89.9% occupied.

The minority interests at September 30, 2003 consist of limited partnership interests in the Operating Partnership of approximately 2.6%, exclusive of ownership interests of the Operating Partnership's preferred unit holders.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of Arden Realty, Inc., the Operating Partnership, and our subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

We consolidate all entities for which we have controlling financial interest as measured by a majority of the voting interest. For entities in which the controlling financial interest is not clearly indicated by ownership of a majority of the voting interest, we would consolidate those entities that we control by agreement. We also consolidate all variable interest entities for which we are the primary beneficiary.

Except for minority interests in the Operating Partnership, Arden Realty and the Operating Partnership currently own 100% of all of our consolidated subsidiaries and do not have any unconsolidated investments other than an investment in the securities of a non-publicly traded company. This investment represents approximately 5.5% of the total equity outstanding for this particular company. Because we do not control this company contractually nor exert significant influence over its operating and financial policies, we account for this investment under the cost method of accounting.

*Interim Financial Data*

The accompanying consolidated condensed financial statements should be read in conjunction with our 2002 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The accompanying financial information reflects all adjustments, which are, in our opinion, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. Interim results of operations are not necessarily indicative of the results to be expected for the full year.

*Reclassifications*

Certain prior year amounts have been reclassified to conform with the current year presentation.

**3. New Accounting Standards**

In January 2003, FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements and provides guidance on the identification of entities for which control is achieved through means other than through voting rights and how to determine when and which business enterprise should consolidate such an entity. This new model for consolidation applies to an entity for which either the equity investors do not have a controlling financial interest or an entity for which the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. Our adoption of this statement in 2003 did not have an impact on our consolidated financial statements.

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In May 2003, the FASB issued FASB Statement No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 affects an issuer's accounting for certain types of freestanding financial instruments. In addition to its requirements for the classification and measurement of financial instruments in its scope, SFAS 150 also requires disclosures about alternative ways of settling the instruments and capital structure of entities, all of whose shares are mandatorily redeemable. We adopted SFAS 150 in the third quarter of 2003 other than as SFAS 150 applies to noncontrolling interests that are classified as equity under SFAS 150 in the financial statements of the subsidiary which has been deferred indefinitely and its adoption did not have an impact on our consolidated financial statements.

#### **4. Property Dispositions**

On March 11, 2003, we sold an approximate 140,000 square foot office property located in West Hollywood, California for a gross sales price of approximately \$32.5 million.

On April 11, 2003, we sold four properties totaling approximately 343,000 square feet located in Riverside and San Bernardino counties for a gross sales price of approximately \$43.4 million.

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On May 22, 2003, we sold an approximate 33,000 square foot office property located in Orange County for a gross sales price of approximately \$5.0 million.

On October 28, 2003, we sold an approximate 21,000 square foot office property located in Simi Valley, California for a gross sale price of approximately \$3.6 million.

The net proceeds from these dispositions were used to reduce the outstanding balance on our Wells Fargo unsecured line of credit.

**5. Outstanding Indebtedness**

A summary of our outstanding indebtedness as of September 30, 2003 and December 31, 2002 is as follows:

Type of Debt	September 30, 2003	December 30, 2002	Stated Annual Interest Rate at September 30, 2003	Rate  Fixed/Floating	Number of Properties Securing Loan	Maturity
(in thousands)						
<b>Mortgage Loans Payable:</b>						
<i>Fixed Rate</i>						
Mortgage Financing I <sup>(1)</sup>	\$ 175,000	\$ 175,000	7.52%	Fixed	18	6/04
Mortgage Financing III <sup>(2)</sup>	135,251	136,100	6.74%	Fixed	22	4/08
Mortgage Financing IV <sup>(2)</sup>	110,524	111,200	6.61%	Fixed	12	