ARDEN REALTY INC
Form 10-Q
May 13, 2003

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 March 31, 2003

Commission file number 1-12193

ARDEN REALTY, INC.
(Exact name of registrant as specified in its charter)

Maryland	**95-4578533**
(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

As of May 9, 2003 there were 63,195,718 shares of the registrant s common stock, $.01 par value, issued and outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2003	December 31, 2002
	(unaudited)	
Assets		
Investment in real estate:		
Land	$ 476,034	$ 476,034
Buildings and improvements	2,166,425	2,164,449
Tenant improvements and leasing commissions	328,588	320,100
	2,971,047	2,960,583
Less: accumulated depreciation and amortization	(403,521)	(381,557)
	2,567,526	2,579,026
Properties under development	66,915	65,296
Land available for development	23,765	23,731
Properties held for disposition, net	40,756	73,571
Net investment in real estate	2,698,962	2,741,624
Cash and cash equivalents	15,428	4,063
Restricted cash	23,588	20,498
Rent and other receivables, net of allowance of $4,701 and $4,001 at March 31, 2003 and December 31, 2002, respectively	3,559	2,917
Deferred rent	43,764	43,646
Prepaid financing costs, expenses and other assets, net of amortization	20,305	19,661
Total assets	$2,805,606	$2,832,409
Liabilities		
Mortgage loans payable	$ 569,905	$ 570,654
Unsecured lines of credit	195,587	208,587
Unsecured term loan	125,000	125,000
Unsecured senior notes, net of discount	498,159	498,063
Accounts payable and accrued expenses	60,082	55,705
Security deposits	20,517	20,645
Dividends payable	31,849	31,807
Total liabilities	1,501,099	1,510,461
Minority interest	74,124	74,571
Stockholders Equity		
Preferred stock, $.01 par value 20,000,000 shares authorized, none issued		
Common stock, $.01 par value, 100,000,000 shares authorized, 63,066,851 and 62,984,217 issued and outstanding at March 31, 2003 and December 31, 2002, respectively	632	631
Additional paid-in capital	1,246,081	1,260,773

Deferred compensation	(12,465)	(11,259)
Accumulated other comprehensive loss	(3,865)	(2,768)
Total stockholders equity	1,230,383	1,247,377
Total liabilities and stockholders equity	$2,805,606	$2,832,409

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 March 31, 2003	Three Months Ended March 31, 2002
Property revenues	$104,276	$99,701
Property operating expenses	32,267	29,283
	72,009	70,418
General and administrative expenses	3,652	2,960
Interest expense	23,035	21,397
Depreciation and amortization	28,961	25,580
Interest and other income	(132)	(540)
Income from continuing operations before gain on sale of properties and minority interest	16,493	21,021
Gain on sale of operating properties		1,192
Income from continuing operations before minority interest	16,493	22,213
Minority interest	(1,486)	(1,655)
Income from continuing operations	15,007	20,558
Discontinued operations, net of minority interest	1,070	795
Loss on sale of discontinued properties	(639)	
Net income	$ 15,438	$21,353
Basic net income per common share:		
Income from continuing operations	$ 0.23	$ 0.32
Income from discontinued operations	0.01	0.01
Net income per common share basic	$ 0.24	$ 0.33
Weighted average number of common shares basic	63,040	64,405
Diluted net income per common share:		
Income from continuing operations	$ 0.23	$ 0.32
Income from discontinued operations	0.01	0.01
Net income per common share diluted	$ 0.24	$ 0.33
Weighted average number of common shares diluted	63,126	64,683

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2003	2002
Operating Activities:		
Net income	$ 15,438	$ 21,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest, including discontinued operations	1,498	1,677
Gain on sale of operating properties		(1,192)
Loss on sale of discontinued operations	639	
Depreciation and amortization, including discontinued operations	29,526	26,383
Amortization of loan costs	946	937
Non-cash compensation expense	389	245
Changes in operating assets and liabilities:		
Rent and other receivables	(642)	2,562
Deferred rent	(118)	(1,596)
Prepaid financing costs, expenses and other assets	(1,494)	(13)
Accounts payable and accrued expenses	3,280	(2,094)
Security deposits	(128)	16
Net cash provided by operating activities	49,334	48,278
Investing Activities:		
Improvements to commercial properties	(19,386)	(31,659)
Proceeds from sale of properties	31,943	6,122
Net cash provided by (used in) investing activities	12,557	(25,537)
Financing Activities:		
Repayments of mortgage loans	(749)	(721)
Proceeds from unsecured lines of credit	36,500	10,000
Repayments of unsecured lines of credit	(49,500)	(27,000)
Proceeds from issuance of common stock	64	1,166
Distributions to preferred operating partnership unit holders	(1,078)	(1,078)
Increase in restricted cash	(3,090)	(2,828)
Distributions to minority interests	(867)	(901)
Dividends paid	(31,806)	(31,408)
Net cash used in financing activities	(50,526)	(52,770)
Net increase (decrease) in cash and cash equivalents	11,365	(30,029)
Cash and cash equivalents at beginning of period	4,063	37,041
Cash and cash equivalents at end of period	$ 15,428	$ 7,012
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest, net of amounts capitalized	$ 23,555	$ 22,353

See accompanying notes to consolidated financial statements.

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Arden Realty, Inc.
Notes to Consolidated Condensed Financial Statements
March 31, 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 March 31, 2003, our portfolio was comprised of 136 primarily suburban office properties, consisting of 222 buildings with approximately 19.3 million net rentable square feet including one property with approximately 283,000 net rentable square feet under lease-up. As of March 31, 2003 our properties were 89.7% occupied.

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

The minority interests at March 31, 2003 consisted of limited partnership interests in the Operating Partnership of approximately 2.7%, 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 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 5.8% 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 April 2002, FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS 145 rescinds Statement No. 4 Reporting Gains and Losses from Extinguishment of Debt. Under SFAS 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet certain defined criteria must be reclassified to income before extraordinary items. The provisions of SFAS 145 are effective for 2003. Our adoption of this statement in 2003 did not have an impact on our consolidated financial statements.

In June 2002, FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred based on the present value of the expected contingent payment under the guarantee. The provisions of SFAS 146 are effective for 2003. Our adoption of this statement in 2003 did not have an impact on our consolidated financial statements.

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 which either (1) the equity investors (if any) do not have a controlling financial interest or (2) 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 November 2002, FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires guarantees and indemnification agreements meeting the characteristics described in FIN 45 to be initially recorded as a liability at fair value. FIN 45 also requires a guarantor to make new disclosures for guarantees, even if the likelihood of the guarantor having to make payment under the guarantee is remote. The disclosure requirements within FIN 45 are effective for 2002 and its adoption is required for 2003 on a prospective basis to guarantees issued or modified after December 31, 2002. We adopted the disclosure provisions of FIN 45 in 2003. Our adoption of this statement 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 an approximate gross sales price of approximately $32.5 million.

As of March 31, 2003, properties held for disposition consisted of five properties representing approximately 375,000 square feet. See footnote 10 for additional discussion on property dispositions.

5. Outstanding Indebtedness

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

Type of Debt	March 31, 2003 (unaudited)	December 31, 2002	Stated Annual Interest Rate at March 31, 2003 (unaudited)	Rate Fixed/Floating	Number of Properties Securing Loan	Maturity
	(in thousands)					
Mortgage Loans Payable:						
Fixed Rate						
Mortgage Financing I(1)	$175,000	$175,000	7.52%	Fixed	18	6/04
Mortgage Financing III(2)	136,100	136,100	6.74%	Fixed	22	4/08
Mortgage Financing IV(2)	111,200	111,200	6.61%	Fixed	12	4/08
Mortgage Financing V(3)	107,578	108,153	6.94%	Fixed	12	4/09
Mortgage Financing VI(3)	21,769	21,816	7.54%	Fixed	3	4/09
Activity Business Center(3)	7,539	7,580	8.85%	Fixed	1	5/06
145 South Fairfax(3)	3,940	3,952	8.93%	Fixed	1	1/27
Marin Corporate Center(3)	2,820	2,850	9.00%	Fixed	1	7/15
Conejo Business Center(3)	2,765	2,795	8.75%	Fixed	(Note 4)	7/15
Conejo Business Center(3)	1,194	1,208	7.88%	Fixed	(Note 4)	7/15
	569,905	570,654				
Unsecured Lines of Credit:						
Floating Rate						
Wells Fargo-$310 mm(1)	195,587	208,587	2.77%	LIBOR + 1.00% (Notes 5,6)		4/06
City National Bank-$10 mm(1)				Prime Rate 0.875%		8/03