

HOME PROPERTIES INC
Form 10-Q
May 08, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 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: 1-13136

HOME PROPERTIES, INC.

(exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of incorporation or organization)

16-1455126

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

850 Clinton Square, Rochester, New York
(Address of principal executive offices)

14604
(Zip Code)

(585) 546-4900

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 (§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 checkmark 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.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Edgar Filing: HOME PROPERTIES INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding at April 30, 2009
\$.01 par value	32,905,925

HOME PROPERTIES, INC.

TABLE OF CONTENTS

	PAGE
PART I.FINANCIAL INFORMATION	
Item 1.Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets –</u> March 31, 2009 and December 31, 2008	3
<u>Consolidated Statements of Operations –</u> Three months ended March 31, 2009 and 2008	4
<u>Consolidated Statements of Equity -</u> Three months ended March 31, 2009 and year ended December 31, 2008	5
<u>Consolidated Statements of Cash Flows –</u> Three months ended March 31, 2009 and 2008	6
<u>Notes to Consolidated Financial Statements</u>	7-16
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17-26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
PART II.OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	29
Item 5. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2009 AND DECEMBER 31, 2008
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2009	2008
ASSETS		
Real estate:		
Land	\$ 511,407	\$ 515,610
Construction in progress	124,933	111,039
Buildings, improvements and equipment	3,201,790	3,245,741
	3,838,130	3,872,390
Less: accumulated depreciation	(654,732)	(636,970)
Real estate, net	3,183,398	3,235,420
Cash and cash equivalents	8,260	6,567
Cash in escrows	27,566	27,904
Accounts receivable	12,855	14,078
Prepaid expenses	13,695	16,277
Deferred charges	10,233	11,360
Other assets	3,860	5,488
Total assets	\$ 3,259,867	\$ 3,317,094
LIABILITIES AND EQUITY		
Mortgage notes payable	\$ 2,067,809	\$ 2,112,331
Exchangeable senior notes	134,649	134,169
Line of credit	75,500	71,000
Accounts payable	23,040	23,731
Accrued interest payable	12,301	10,845
Accrued expenses and other liabilities	28,183	32,043
Security deposits	20,780	21,443
Total liabilities	2,362,262	2,405,562
Commitments and contingencies		
Equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 32,867,925 and 32,431,304 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	329	324
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	867,216	857,415
Distributions in excess of accumulated earnings	(218,073)	(206,961)
Total common stockholders' equity	649,472	650,778
Noncontrolling interests	248,133	260,754
Total equity	897,605	911,532
Total liabilities and equity	\$ 3,259,867	\$ 3,317,094

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2009	2008
Revenues:		
Rental income	\$ 116,760	\$ 112,937
Property other income	12,444	11,712
Interest income	8	120
Other income	278	192
Total revenues	129,490	124,961
Expenses:		
Operating and maintenance	57,163	54,115
General and administrative	5,888	6,220
Interest	30,553	30,016
Depreciation and amortization	30,047	27,473
Total expenses	123,651	117,824
Income from continuing operations	5,839	7,137
Discontinued operations:		
Loss from discontinued operations	(4,288)	(648)
Gain on disposition of property	13,508	29,849
Discontinued operations	9,220	29,201
Net income	15,059	36,338
Net income attributable to noncontrolling interests	(4,157)	(10,686)
Net income attributable to common shareholders	\$ 10,902	\$ 25,652
Basic earnings per share:		
Income from continuing operations	\$ 0.13	\$ 0.16
Discontinued operations	0.20	0.64
Net income attributable to common shareholders	\$ 0.33	\$ 0.80
Diluted earnings per share:		
Income from continuing operations	\$ 0.13	\$ 0.16
Discontinued operations	0.20	0.63
Net income attributable to common shareholders	\$ 0.33	\$ 0.79
Weighted average number of shares outstanding:		
Basic	32,668,662	32,211,720
Diluted	32,699,764	32,589,652
Dividends declared per share	\$ 0.67	\$ 0.66

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Common Stock		Additional	Distributions	Noncontrolling	Totals
	Shares	Amount	Paid-In Capital	in Excess of Accumulated Earnings	Interests	
Balance, December 31, 2007	32,600,614	\$ 326	\$ 853,358	\$ (185,623)	\$ 279,061	\$ 947,122
Cumulative effect of change in accounting principle	-	-	9,688	(2,066)	3,138	10,760
Balance, January 1, 2008	32,600,614	326	863,046	(187,689)	282,199	957,882
Net income	-	-	-	66,081	27,124	93,205
Issuance of common stock, net	370,714	3	16,824	-	-	16,827
Repurchase of common stock	(1,165,783)	(11)	(53,919)	-	-	(53,930)
Repurchase of convertible debt	-	-	88	(88)	-	-
Conversion of UPREIT Units for common stock	625,759	6	30,222	-	(12,435)	17,793
Adjustment of noncontrolling interests	-	-	1,154	-	(1,154)	-
Dividends and distributions paid (\$2.65 per share)	-	-	-	(85,265)	(34,980)	(120,245)
Balance, December 31, 2008	32,431,304	\$ 324	\$ 857,415	\$ (206,961)	\$ 260,754	\$ 911,532
Net income	-	-	-	10,902	4,157	15,059
Issuance of common stock, net	29,116	1	2,041	-	-	2,042
Repurchase of common stock	(25,078)	-	(711)	-	-	(711)
Conversion of UPREIT Units for common stock	432,583	4	8,680	-	(8,684)	-
Adjustment of noncontrolling interests	-	-	(209)	-	209	-
Dividends and distributions paid (\$0.67 per share)	-	-	-	(22,014)	(8,303)	(30,317)
Balance, March 31, 2009	32,867,925	\$ 329	\$ 867,216	\$ (218,073)	\$ 248,133	\$ 897,605

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED, IN THOUSANDS)

	2009	2008
Cash flows from operating activities:		
Net income	\$ 15,059	\$ 36,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,494	29,354
Amortization of debt discount	480	648
Gain on disposition of property and business	(13,508)	(29,849)
Issuance of restricted stock, compensation cost of stock options and deferred compensation	1,195	970
Changes in assets and liabilities:		
Cash in escrows	781	1,394
Other assets	4,644	211
Accounts payable and accrued liabilities	(3,058)	(365)
Total adjustments	21,028	2,363
Net cash provided by operating activities	36,087	38,701
Cash flows from investing activities:		
Purchase of land for development	-	(15,951)
Additions to properties	(20,313)	(19,998)
Additions to construction in progress	(11,170)	(5,897)
Proceeds from sale of properties and business, net	66,912	63,045
Additions to cash in escrows, net	(412)	(6,777)
Net cash provided by investing activities	35,017	14,422
Cash flows from financing activities:		
Proceeds from sale of common stock, net	847	1,837
Repurchase of common stock	(711)	(51,588)
Proceeds from mortgage notes payable	-	11,470
Payments of mortgage notes payable	(43,887)	(36,562)
Proceeds from line of credit	78,500	88,000
Payments on line of credit	(74,000)	(36,500)
Proceeds from (payments of) deferred loan costs	164	(231)
Additions to cash in escrows, net	(7)	(12)
Dividends and distributions paid	(30,317)	(30,360)
Net cash used in financing activities	(69,411)	(53,946)
Net increase (decrease) in cash and cash equivalents	1,693	(823)
Cash and cash equivalents:		
Beginning of year	6,567	6,109
End of period	\$ 8,260	\$ 5,286
Supplemental disclosure of non-cash operating, investing and financing activities:		
Exchange of UPREIT Units for common shares	\$ 8,684	\$ 538
Additions to properties included in accounts payable	5,587	1,207
Mortgage note premium write-off	615	-

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

Page 6

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1. Unaudited Interim Financial Statements

The interim consolidated financial statements of Home Properties, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, which were revised in the current period to reflect the retroactive application of recently issued accounting standards (see Note 3), but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2008.

2. Organization and Basis of Presentation

Organization

The Company was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, rehabilitation and development of residential apartment communities primarily in select Northeast, Mid-Atlantic and Southeast Florida regions of the United States. The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership. As of March 31, 2009, the Company operated 109 apartment communities with 37,539 apartments. Of this total, the Company owned 107 communities, consisting of 36,389 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed one community, consisting of 282 apartments, for a third party.

The Company elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code, as amended, for all periods presented. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its ownership of 72.7% of the limited partnership units in the Operating Partnership ("UPREIT Units") at March 31, 2009 (71.7% at December 31, 2008). The remaining 27.3% is reflected as noncontrolling interests in these consolidated financial statements at March 31, 2009 (28.3% at December 31, 2008). The Company owns a 1.0% general partner interest in the Operating Partnership and the remainder indirectly as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of Home Properties Trust, which is the limited partner. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary ("QRS") and

owns the Company's share of the limited partner interests in the Operating Partnership. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership. The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2. Organization and Basis of Presentation (continued)

The accompanying consolidated financial statements include the accounts of Home Properties Resident Services, Inc. ("HPRS"), (the "Management Company"). The Management Company is a wholly owned subsidiary of the Company. In addition, the Company consolidates one affordable housing limited partnership in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 – Consolidated Financial Statements ("FIN 46R"). All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

3. Recently Adopted and Recently Issued Accounting Standards

Retrospective Application of Changes in Accounting Principles

On January 1, 2009, the Company adopted FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), ("FSP APB 14-1"); FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ("SFAS 160"); and FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1").

FSP APB 14-1 requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate on the date of issue. The difference between the principal amount of the debt and the amount of proceeds allocated to the liability component is reported as a debt discount and subsequently amortized to earnings over the instrument's expected life using the effective interest method. The adoption of FSP APB 14-1 affects the accounting for the Company's 4.125% exchangeable senior notes ("senior notes") which were issued in October 2006 with a par value of \$200,000. The initial debt component of the \$200,000 par value senior notes was \$186,050, based on the fair value of similar nonconvertible debt. The aggregate initial debt discount of \$13,950 was recorded in additional paid-in capital. We are amortizing the discount using the effective interest method over the period the debt is expected to remain outstanding (through the first optional redemption date of November 1, 2011) as additional non-cash interest expense. During the fourth quarter of 2008, the Company repurchased \$60,000 par value of the exchangeable senior notes for \$45,360. The gain on early extinguishment of debt originally recorded in the fourth quarter of 2008 of \$13,884 has been adjusted for the impact of FSP APB 14-1, which requires a revaluation of the extinguished debt and equity components at the date of extinguishment and resulted in a restated gain on early extinguishment of debt of \$11,303. The following table provides additional information about the senior notes:

	March 31, 2009	December 31, 2008
Consolidated Balance Sheet:		
Principal amount of liability component	\$ 140,000	\$ 140,000
Unamortized discount	(5,351)	(5,831)
Carrying amount of liability component	\$ 134,649	\$ 134,169
Carrying amount of equity component	\$ 13,950	\$ 13,950
	March 31,	
Consolidated Income Statement:		
Coupon interest	2009 \$ 1,444	2008 \$ 2,063

Edgar Filing: HOME PROPERTIES INC - Form 10-Q

Discount amortization - issuance costs		138		195
Discount amortization - FSP APB 14-1		480		648
Total interest expense	\$	2,062	\$	2,906
Effective interest rate		5.75%		5.75%
Conversion price per share, as adjusted	\$	73.04	\$	73.11

Page 8

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

3. Recently Adopted and Recently Issued Accounting Standards (continued)

SFAS 160 establishes accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interests be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; and that entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

The following tables set forth the effect of the retroactive application of FSP APB 14-1 and SFAS 160 on certain previously reported line items.

Consolidated Balance Sheet:

December 31, 2008

	Originally Reported	As Adjusted	Effect of Change	Impact of FSP APB 14-1	Impact of SFAS 160
Deferred charges	\$ 11,473	\$ 11,360	\$ (113)	\$ (113)	\$ -
Total assets	3,317,207	3,317,094	(113)	(113)	-
Exchangeable senior notes	140,000	134,169	(5,831)	(5,831)	-
Total liabilities	2,411,393	2,405,562	(5,831)	(5,831)	-
Minority interest	259,136	-	(259,136)	-	(259,136)
Additional paid-in capital	847,576	857,415	9,839	9,839	-
Distributions in excess of accumulated earnings	(201,222)	(206,961)	(5,739)	(5,739)	-
Total stockholders' equity	646,678	650,778	4,100	4,100	-
Noncontrolling interests	-	260,754	260,754	1,618	259,136
Total equity	646,678	911,532	264,854	5,718	259,136
Total liabilities and stockholders' equity	3,317,207	3,317,094	(113)	(113)	-

Consolidated Statement of Operations:

Three Months Ended March 31, 2008

	Originally Reported ¹	As Adjusted	Effect of Change	Impact of FSP APB 14-1	Impact of SFAS 160
Interest	\$ 29,383	\$ 30,016	\$ 633	\$ 633	\$ -
Total expense	117,191	117,824	633	633	-
Income from continuing operations before gain on					
early retirement of debt	7,770	7,137	(633)	(633)	-
Minority interest in operating partnership	(2,285)	-	2,285	186	2,099
Income from continuing operations	5,485	7,137	1,652	(447)	2,099
Loss from discontinued operations	(457)	(648)	(191)	-	(191)
Gain on disposition of property	21,071	29,849	8,778	-	8,778
Discontinued operations	20,614	29,201	8,587	-	8,587

Edgar Filing: HOME PROPERTIES INC - Form 10-Q

Net income	26,099	36,338	10,239	(447)	10,686
Net income attributable to noncontrolling interests	-	(10,686)	(10,686)	-	(10,686)
Net income attributable to common shareholders	26,099	25,652	(447)	(447)	-
Basic earnings per share	0.81	0.80	(0.01)	(0.01)	-
Diluted earnings per share	0.80	0.79	(0.01)	(0.01)	-

¹Adjusted for discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”), as discussed in Note 9.

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

3. Recently Adopted and Recently Issued Accounting Standards (continued)

Consolidated Statement of Equity:	December 31, 2008				
	Originally Reported	As Adjusted	Effect of Change	Impact of FSP APB 14-1	Impact of SFAS 160
Additional paid-in-capital	\$ 847,576	\$ 857,415	\$ 9,839	\$ 9,839	\$ -
Distributions in excess of accumulated earnings	(201,222)	(206,961)	(5,739)	(5,739)	-
Noncontrolling interests	-	260,754	260,754	1,618	259,136

The impact of FSP APB 14-1 on the January 1, 2008 balances of additional paid-in capital, distributions in excess of accumulated earnings and noncontrolling interests have been reflected as a cumulative effect of change in accounting principle on our consolidated statements of equity.

Consolidated Statement of Cash Flows:	Three Months Ended March 31, 2008				
	Originally Reported	As Adjusted	Effect of Change	Impact of FSP APB 14-1	Impact of SFAS 160
Net income	\$ 26,099	\$ 36,338	\$ 10,239	\$ (447)	\$ 10,686
Income allocated to minority interest	10,872	-	(10,872)	(186)	(10,686)
Depreciation and amortization	29,369	29,354	(15)	(15)	-
Amortization of debt discount	-	648	648	648	-