APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
November 07, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

o **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 1-13232

Apartment Investment and Management Company
(Exact name of registrant as specified in its charter)

Maryland	**84-1259577**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4582 South Ulster Street Parkway, Suite 1100 Denver, Colorado	**80237**
(Address of principal executive offices)	(Zip Code)

(303) 757-8101
(Registrant s telephone number, including area code)
Not Applicable
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares of Class A Common Stock outstanding as of October 31, 2006: 96,489,995

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Real estate:		
Land	$ 2,340,744	$ 2,233,630
Buildings and improvements	9,690,408	8,255,582
Total real estate	12,031,152	10,489,212
Less accumulated depreciation	(2,894,820)	(2,097,966)
Net real estate	9,136,332	8,391,246
Cash and cash equivalents	182,283	161,730
Restricted cash	348,320	283,955
Accounts receivable	56,569	59,889
Accounts receivable from affiliates	24,534	43,070
Deferred financing costs	75,173	64,873
Notes receivable from unconsolidated real estate partnerships	46,937	177,200
Notes receivable from non-affiliates	52,124	23,760
Investment in unconsolidated real estate partnerships	54,671	167,818
Other assets	233,259	216,863
Deferred income tax assets, net		9,835
Assets held for sale	11,163	418,921
Total assets	$ 10,221,365	$ 10,019,160
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	$ 1,036,582	$ 1,035,584
Property loans payable	5,197,393	4,404,699
Term loans	400,000	400,000
Credit facility	155,000	217,000
Total indebtedness	6,788,975	6,057,283
Accounts payable	39,280	34,381
Accrued liabilities and other	406,306	423,633
Deferred income	158,156	46,837
Security deposits	44,623	37,577
Deferred income tax liabilities, net	3,934	
Liabilities related to assets held for sale	958	267,937

Total liabilities	7,442,232	6,867,648
Minority interest in consolidated real estate partnerships	215,099	217,679
Minority interest in Aimco Operating Partnership	190,634	217,729
Stockholders equity:		
Preferred Stock, perpetual	723,500	860,250
Preferred Stock, convertible	100,000	150,000
Class A Common Stock, $.01 par value, 426,157,736 shares authorized, 95,909,969 and 95,732,200 shares issued and outstanding, at September 30, 2006 and December 31, 2005, respectively	959	957
Additional paid-in capital	3,063,361	3,081,707
Notes due on common stock purchases	(5,029)	(25,911)
Distributions in excess of earnings	(1,509,391)	(1,350,899)
Total stockholders equity	2,373,400	2,716,104
Total liabilities and stockholders equity	$ 10,221,365	$ 10,019,160

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES:				
Rental and other property revenues	$ 422,602	$ 354,262	$ 1,245,679	$ 1,025,891
Property management revenues, primarily from affiliates	2,599	6,094	9,221	18,684
Activity fees and asset management revenues, primarily from affiliates	10,470	8,018	32,143	22,715
Total revenues	435,671	368,374	1,287,043	1,067,290
EXPENSES:				
Property operating expenses	194,749	169,181	571,895	480,704
Property management expenses	984	1,928	3,627	5,674
Activity and asset management expenses	1,073	2,778	6,744	7,697
Depreciation and amortization	126,112	103,717	352,624	287,648
General and administrative expenses	25,262	23,095	72,769	65,663
Other expenses (income), net	(30)	330	9,843	5,717
Total expenses	348,150	301,029	1,017,502	853,103
Operating income	87,521	67,345	269,541	214,187
Interest income	7,580	7,279	20,209	21,989
Recovery of (provision for) losses on notes receivable	46	(206)	(718)	1,352
Interest expense	(105,889)	(90,700)	(309,396)	(261,318)
Deficit distributions to minority partners, net	(14,072)	(2,849)	(20,129)	(5,719)
Equity in losses of unconsolidated real estate partnerships	(169)	(552)	(2,606)	(1,871)
Recovery of (impairment losses) related to real estate partnerships	(158)	(1,178)	813	(1,709)
Gain on dispositions of real estate related to unconsolidated entities and other	7,641	8,387	21,397	13,670
Loss before minority interests and discontinued operations	(17,500)	(12,474)	(20,889)	(19,419)
Minority interests:				
Minority interest in consolidated real estate partnerships	(23,611)	3,836	(18,063)	7,381

Minority interest in Aimco Operating Partnership, preferred		(1,785)		(1,806)		(5,368)		(5,424)
Minority interest in Aimco Operating Partnership, common		6,548		3,287		10,549		8,547
Total minority interests		(18,848)		5,317		(12,882)		10,504
Loss from continuing operations		(36,348)		(7,157)		(33,771)		(8,915)
Income from discontinued operations, net		11,473		33,509		128,058		64,865
Net income (loss)		(24,875)		26,352		94,287		55,950
Net income attributable to preferred stockholders		21,656		21,693		64,744		66,255
Net income (loss) attributable to common stockholders	$	(46,531)	$	4,659	$	29,543	$	(10,305)
Earnings (loss) per common share basic:								
Loss from continuing operations (net of preferred dividends)	$	(0.60)	$	(0.31)	$	(1.03)	$	(0.80)
Income from discontinued operations		0.12		0.36		1.34		0.69
Net income (loss) attributable to common stockholders	$	(0.48)	$	0.05	$	0.31	$	(0.11)
Earnings (loss) per common share diluted:								
Loss from continuing operations (net of preferred dividends)	$	(0.60)	$	(0.31)	$	(1.03)	$	(0.80)
Income from discontinued operations		0.12		0.36		1.34		0.69
Net income (loss) attributable to common stockholders	$	(0.48)	$	0.05	$	0.31	$	(0.11)
Weighted average common shares outstanding		96,061		94,041		95,772		93,765
Weighted average common shares and equivalents outstanding		96,061		94,041		95,772		93,765
Dividends declared per common share	$	0.60	$	0.60	$	1.20	$	1.80

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 94,287	$ 55,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	352,624	287,648
Discontinued operations	(153,355)	(70,185)
Other adjustments	45,646	9,054
Net changes in operating assets and operating liabilities	52,577	(4,789)
Net cash provided by operating activities	391,779	277,678
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate	(63,240)	(243,996)
Capital expenditures	(366,887)	(324,046)
Proceeds from dispositions of real estate	639,924	390,808
Cash from newly consolidated properties	22,432	2,211
Purchases of non-real estate related corporate assets	(5,738)	(11,090)
Purchases of general and limited partnership interests and other assets	(12,516)	(85,267)
Originations of notes receivable from unconsolidated real estate partnerships	(8,062)	(28,042)
Proceeds from repayment of notes receivable	6,074	16,402
Distributions received from investments in unconsolidated real estate partnerships	11,071	40,131
Other investing activities	(13,419)	(13,442)
Net cash provided by (used in) investing activities	209,639	(256,331)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from property loans	882,854	550,243
Principal repayments on property loans	(798,008)	(452,310)
Principal repayments on tax-exempt bond financing	(33,541)	(40,431)
Net borrowings (repayments) on term loans and revolving credit facility	(62,000)	263,300
Redemption of mandatorily redeemable preferred securities		(15,019)
Proceeds from issuance of preferred stock, net	97,517	
Redemption of preferred stock	(286,750)	(31,250)
Repurchases of Class A Common Stock	(100,000)	
Proceeds from Class A Common Stock option exercises	62,288	898
Principal repayments received on notes due on Class A Common Stock purchases	21,529	11,245
Payment of Class A Common Stock dividends	(173,532)	(169,967)
Contributions from minority interest	3,075	25,453
Payment of distributions to minority interest	(107,533)	(52,516)
Payment of preferred stock dividends	(58,261)	(64,889)
Other financing activities	(28,503)	(11,811)

Net cash provided by (used in) financing activities	(580,865)	12,946
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,553	34,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	161,730	105,343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 182,283	$ 139,636

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

Note 1 Organization

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of September 30, 2006, we owned or managed a real estate portfolio of 1,290 apartment properties containing 224,837 apartment units located in 47 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, as of January 1, 2006, we were the largest owner of apartment properties in the United States.

As of September 30, 2006, we:

owned an equity interest in and consolidated 167,305 units in 721 properties (which we refer to as consolidated), of which 166,802 units were also managed by us;

owned an equity interest in and did not consolidate 14,644 units in 109 properties (which we refer to as unconsolidated), of which 8,799 units were also managed by us; and

provided services or managed, for third-party owners, 42,888 units in 460 properties, primarily pursuant to long-term agreements (including 39,278 units in 418 properties for which we provide asset management services only, and not also property management services), although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP, Inc., we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of September 30, 2006, we held approximately a 90% interest in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. The Aimco Operating Partnership s income is allocated to holders of common OP Units based on the weighted average number of common OP Units outstanding during the period. The Aimco Operating Partnership records the issuance of common OP Units and the assets acquired in purchase transactions based on the market price of Aimco Class A Common Stock (which we refer to as Common Stock) at the date of execution of the purchase contract. The holders of the common OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid to holders of Common Stock. Holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership s option, Common Stock. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At September 30, 2006, 95,909,969 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 10,174,988 common OP Units and equivalents outstanding for a combined total of 106,084,957 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

Except as the context otherwise requires, we, our, us and the Company refer to Aimco, the Aimco Operating Partnership and their consolidated entities, collectively.

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Note 2 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and notes thereto included in Aimco s Annual Report on Form 10-K for the year ended December 31, 2005. Certain 2005 financial statement amounts have been reclassified to conform to the 2006 presentation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated entities. As used herein, and except where the context otherwise requires, partnership refers to a limited partnership or a limited liability company and partner refers to a limited partner in a limited partnership or a member in a limited liability company. Interests held in consolidated real estate partnerships by limited partners other than us are reflected as minority interest in consolidated real estate partnerships. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of consolidated real estate partnerships owned or controlled by Aimco or the Aimco Operating Partnership generally are not available to pay creditors of Aimco or the Aimco Operating Partnership.

As a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46, as of March 31, 2004, we consolidate all variable interest entities for which we are the primary beneficiary. Generally, we consolidate real estate partnerships and other entities that are not variable interest entities when we own, directly or indirectly, a majority voting interest in the entity or are otherwise able to control the entity. As a result of adopting EITF 04-5 as discussed further below, we are applying new criteria for determining whether we control certain partnerships.

Adoption of EITF 04-5

In June 2005, the Financial Accounting Standards Board ratified Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, or EITF 04-5. EITF 04-5 provides an accounting model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of substantive kick-out rights and substantive participating rights held by the limited partners, and provides additional guidance on what constitutes those rights. EITF 04-5 was effective after June 29, 2005 for general partners of (a) all newly formed limited partnerships and (b) existing limited partnerships for which the partnership agreements have been modified. We consolidated four partnerships in the fourth quarter of 2005 based on EITF 04-5 requirements. The consolidation of those partnerships had an immaterial effect on our consolidated financial statements. EITF 04-5 was effective on January 1, 2006, for general partners of all limited partnerships and similar entities. We applied EITF 04-5 as of January 1, 2006, using a transition method that does not involve retrospective application to our financial statements for prior periods.

We consolidated 156 previously unconsolidated partnerships as a result of the application of EITF 04-5 in 2006. Those partnerships own, or control other entities that own, 149 apartment properties. Our direct and indirect interests in the profits and losses of those partnerships range from less than one percent to 50 percent, and average approximately 22 percent. The initial consolidation of those partnerships resulted in increases (decreases), net of intercompany eliminations, in amounts reported in our consolidated balance sheet as of January 1, 2006, as follows (in thousands):

	Increase (decrease)
Real estate, net	$ 665,793
Accounts and notes receivable from affiliates	(150,057)
Investment in unconsolidated real estate partnerships	(64,419)
All other assets	122,545
Total assets	$ 573,862
Total indebtedness	$ 521,711
All other liabilities	81,950
Minority interest in consolidated real estate partnerships	53,258
Minority interest in Aimco Operating Partnership	(9,552)
Stockholders equity	(73,505)
Total liabilities and stockholders equity	$ 573,862

Our income from continuing operations for the three and nine months ended September 30, 2006 include the following amounts for the partnerships consolidated as of January 1, 2006, in accordance with EITF 04-5 (in thousands):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues	$ 40,317	$ 120,658
Operating expenses	28,512	86,000
Operating income	11,805	34,658
Interest expense	(8,505)	(25,096)
Interest income	973	2,703
Income (loss) before minority interests	$ 4,273	$ 12,265

In prior periods, we used the equity method to account for our investments in the partnerships that we consolidated in 2006 in accordance with EITF 04-5. Under the equity method, we recognized partnership income or losses based generally on our percentage interest in the partnership. Consolidation of a partnership does not ordinarily result in a change to the net amount of partnership income or loss that is recognized using the equity method. However, when a partnership has a deficit in equity, generally accepted accounting principles may require the controlling partner that consolidates the partnership to recognize any losses that would otherwise be allocated to noncontrolling partners, in addition to the controlling partner s share of losses. Certain of the partnerships that we consolidated in accordance with EITF 04-5 had deficits in equity that resulted from losses or deficit distributions during prior periods when we accounted for our investment using the equity method. We would have been required to recognize the noncontrolling partners share of those losses had we applied EITF 04-5 in those prior periods. In accordance with our transition method for the adoption of EITF 04-5, we recorded a $73.5 million charge to retained earnings as of January 1, 2006, for the cumulative amount of additional losses that we would have recognized had we applied EITF 04-5 in prior periods. Substantially all of those losses were attributable to real estate depreciation expense. As a result of applying EITF 04-5 for the three and nine months ended September 30, 2006, our income from continuing operations includes partnership losses in addition to losses that would have resulted from continued application of the equity method of $8.5 million and $17.5 million, respectively.

Stock-Based Compensation

We adopted the Apartment Investment and Management Company 1997 Stock Award and Incentive Plan, or the 1997 Plan to attract and retain officers, key employees and independent directors. The 1997 Plan reserves for issuance a maximum of 20 million shares, which may be in the form of incentive stock options, non-qualified stock options and restricted stock, or other types of awards as authorized under the 1997 Plan. At September 30, 2006, there were approximately 3.4 million shares available to be granted. The 1997 Plan is administered by the Compensation and Human

Resources Committee of the Board of Directors. In the case of incentive stock options, the exercise price of the options granted may not be less than the fair market value of Common Stock at the date of grant. The term of the incentive and non-qualified options is generally ten years from the date of grant. The options typically vest over a period of one to five years from the date of grant. We generally issue new shares upon exercise of options. Restricted stock awards typically vest over a period of three to five years.

Prior to 2006, we applied the accounting provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* or SFAS 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123,* or SFAS 148, to all employee awards granted, modified, or settled on or after January 1, 2003, which resulted in recognition of compensation expense related to stock options based on the fair value of the stock options. For stock options granted prior to January 1, 2003, we applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations. Under APB 25, because the exercise price of our employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense related to such options was recognized. We recognized compensation expense for stock options accounted for under SFAS 123 and restricted stock awards ratably over the period the awards vested. Compensation cost was reversed as forfeitures occurred.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, which superseded SFAS 123. SFAS 123R requires all share-based employee compensation, including grants of employee stock options, to be recognized in the financial statements based on fair value and provides for a modified prospective application method of adoption. Under this method, we are applying the provisions of SFAS 123R prospectively to new awards granted on or after January 1, 2006 and to existing awards that are modified after January 1, 2006, and are recognizing compensation cost over the remaining vesting period for the unvested portion of all outstanding awards granted prior to 2006. The measurement and recognition provisions of SFAS 123R that apply to our stock compensation arrangements are similar to those that we applied under SFAS 123 to awards granted on or after January 1, 2003. Under SFAS 123R, we continue to recognize the cost of stock-based compensation ratably over the vesting period. The primary change in our method of recognizing compensation cost relates to the treatment of forfeitures. Under SFAS 123R, expected forfeitures are required to be estimated in determining periodic compensation cost, whereas under SFAS 123 we recognized forfeitures as they occurred.

In connection with the adoption of SFAS 123R as of January 1, 2006, we estimated that forfeitures of unvested awards of stock options and restricted stock for which compensation expense was recognized prior to 2006 will total approximately $154,000. SFAS 123R provides that a cumulative effect of change in accounting principle be recognized for such estimated forfeitures as of the date of adoption. We believe the estimated forfeitures upon adoption of SFAS 123R are immaterial and have reported the cumulative effect adjustment in our general and administrative expenses for the three and nine months ended September 30, 2006. The adoption of SFAS 123R resulted in decreases in our net income for the three and nine months ended September 30, 2006, of $250,000 and $851,000, respectively, including the cumulative effect adjustment. We estimate that the adoption of SFAS 123R will result in a decrease in our net income for the year ending December 31, 2006, of approximately $1.2 million due to the recognition of compensation expense related to stock options granted prior to 2003. After 2006, SFAS 123R is not expected to have any significant effect on our financial statements other than the timing of recognition of forfeitures.

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We estimated the fair value of our options granted in 2006 and 2005 using a Black-Scholes closed-form valuation model using the assumptions set forth in the table below. For options granted in 2006, the expected term of the options reflects the average of the vesting period and the contractual term for the options. Expected volatility reflects the historical volatility of our Common Stock during the historical period commensurate with the expected term of the options that ended on the date of grant. The expected dividend yield reflects the actual amount per share paid on our Common Stock after 2003 and the risk-free interest rate reflects the annualized yield of a zero coupon U.S. Treasury security with a term equal to the expected term of the option. For options granted during the nine months ended September 30, 2006 and 2005, the weighted average fair value of options and our valuation assumptions were as follows:

	Nine Months Ended September 30,	
	2006	**2005**
Weighted average fair value of options granted during the period	$ 5.23	$ 3.57