COUSINS PROPERTIES INC
Form 10-Q
August 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2008

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: 0-3576

COUSINS PROPERTIES INCORPORATED

(Exact name of registrant as specified in its charter)

GEORGIA	**58-0869052**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
191 Peachtree Street, Suite 3600, Atlanta, Georgia	**30303-1740**
(Address of principal executive offices)	(Zip Code)

(404) 407-1000

(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 þ No o

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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Class	Outstanding at August 6, 2008
Common Stock, $1 par value per share	51,336,229 shares

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FORWARD-LOOKING STATEMENTS

Certain matters contained in this report are forward-looking statements within the meaning of the federal securities laws and are subject to uncertainties and risks. These include, but are not limited to, general and local economic conditions, local real estate conditions (including the overall condition of the residential markets), the activity of others developing competitive projects, the risks associated with development projects (such as delay, cost overruns and leasing/sales risk of new properties), the cyclical nature of the real estate industry, the financial condition of existing tenants, interest rates, the Company s ability to obtain favorable financing or zoning, environmental matters, the effects of terrorism, the ability of the Company to close properties under contract and other risks detailed from time to time in the Company s filings with the Securities and Exchange Commission, including the risks identified in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The words believes, expects, anticipates, estimates and similar expressions are intended to identify forward-looking statements. Although the Company believes that its plans, intentions and expectations reflected in any forward-looking statements are reasonable, the Company can give no assurance that such plans, intentions or expectations will be achieved. Such forward-looking statements are based on current expectations and speak as of the date of such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except share and per share amounts)

	June 30, 2008	December 31, 2007
ASSETS		
PROPERTIES:		
Operating properties, net of accumulated depreciation of $167,713 and $142,955 in 2008 and 2007, respectively	**$ 866,185**	$ 654,633
Land held for investment or future development	**101,583**	105,117
Projects under development	**228,298**	358,925
Residential lots under development	**52,179**	44,690
Total properties	**1,248,245**	1,163,365
CASH AND CASH EQUIVALENTS	**8,323**	17,825
RESTRICTED CASH	**2,881**	3,587
NOTES AND OTHER RECEIVABLES, net of allowance for doubtful accounts of $1,440 and $883 in 2008 and 2007, respectively	**54,572**	44,414
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	**211,100**	209,477
OTHER ASSETS	**84,922**	70,943
TOTAL ASSETS	**$ 1,610,043**	$ 1,509,611
LIABILITIES AND STOCKHOLDERS INVESTMENT		
NOTES PAYABLE	**$ 787,506**	$ 676,189
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**74,723**	57,208
DEFERRED GAIN	**171,942**	171,931
DEPOSITS AND DEFERRED INCOME	**7,799**	5,997
TOTAL LIABILITIES	**1,041,970**	911,325
MINORITY INTERESTS	**45,458**	45,783
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS INVESTMENT:		
Preferred stock, 20,000,000 shares authorized, $1 par value:		
7.75% Series A cumulative redeemable preferred stock, $25 liquidation preference; 4,000,000 shares issued and outstanding	**100,000**	100,000
7.50% Series B cumulative redeemable preferred stock, $25 liquidation preference; 4,000,000 shares issued and outstanding	**100,000**	100,000

Common stock, $1 par value, 150,000,000 shares authorized, 54,906,162 and 54,850,505 shares issued in 2008 and 2007, respectively	**54,906**	54,851
Additional paid-in capital	**351,458**	348,508
Treasury stock at cost, 3,570,082 shares in 2008 and 2007	**(86,840)**	(86,840)
Accumulated other comprehensive income	**(3,979)**	(4,302)
Cumulative undistributed net income	**7,070**	40,286
TOTAL STOCKHOLDERS INVESTMENT	**522,615**	552,503
TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT	**$ 1,610,043**	$ 1,509,611

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
REVENUES:				
Rental property revenues	**$ 36,706**	$ 25,499	**$ 71,019**	$ 49,629
Fee income	**7,802**	9,860	**15,360**	17,926
Residential lot and outparcel sales	**1,255**	1,476	**2,999**	2,902
Interest and other	**940**	833	**2,300**	4,500
	46,703	37,668	**91,678**	74,957
COSTS AND EXPENSES:				
Rental property operating expenses	**14,792**	11,341	**28,470**	21,358
General and administrative expenses	**13,067**	15,604	**27,452**	30,294
Depreciation and amortization	**12,785**	8,721	**24,224**	18,076
Residential lot and outparcel cost of sales	**832**	1,085	**1,778**	2,293
Interest expense	**7,367**	531	**13,642**	531
Other	**549**	758	**2,304**	1,118
	49,392	38,040	**97,870**	73,670
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES, MINORITY INTEREST AND INCOME FROM UNCONSOLIDATED JOINT VENTURES	**(2,689)**	(372)	**(6,192)**	1,287
BENEFIT FOR INCOME TAXES FROM OPERATIONS	**2,176**	1,073	**5,393**	2,100
MINORITY INTEREST IN INCOME OF CONSOLIDATED SUBSIDIARIES	**(251)**	(842)	**(922)**	(1,704)
INCOME FROM UNCONSOLIDATED JOINT VENTURES	**2,239**	4,101	**5,056**	7,809
INCOME FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF INVESTMENT PROPERTIES	**1,475**	3,960	**3,335**	9,492
GAIN ON SALE OF INVESTMENT PROPERTIES, NET OF APPLICABLE INCOME TAX PROVISION	**5,212**	62	**9,004**	4,502

INCOME FROM CONTINUING OPERATIONS	**6,687**	4,022	**12,339**	13,994
DISCONTINUED OPERATIONS, NET OF APPLICABLE INCOME TAX PROVISION:				
Income from discontinued operations	**36**	207	**36**	291
Gain (loss) on sale of investment properties		(22)		8,142
	36	185	**36**	8,433
NET INCOME	**6,723**	4,207	**12,375**	22,427
DIVIDENDS TO PREFERRED STOCKHOLDERS	**(3,812)**	(3,812)	**(7,625)**	(7,625)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$ 2,911**	$ 395	**$ 4,750**	$ 14,802
PER COMMON SHARE INFORMATION BASIC:				
Income from continuing operations	**$ 0.06**	$ 0.01	**$ 0.09**	$ 0.13
Income from discontinued operations				0.16
Basic net income available to common stockholders	**$ 0.06**	$ 0.01	**$ 0.09**	$ 0.29
PER COMMON SHARE INFORMATION DILUTED:				
Income from continuing operations	**$ 0.06**	$ 0.01	**$ 0.09**	$ 0.12
Income from discontinued operations				0.16
Diluted net income available to common stockholders	**$ 0.06**	$ 0.01	**$ 0.09**	$ 0.28
CASH DIVIDENDS DECLARED PER COMMON SHARE	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.74
WEIGHTED AVERAGE SHARES	**51,187**	51,825	**51,167**	51,772
DILUTED WEIGHTED AVERAGE SHARES	**52,040**	53,306	**51,842**	53,440

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except per share amounts)

	For the Six Months Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 12,375**	$ 22,427
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Gain on sale of investment properties, net of income tax provision	**(9,004)**	(12,644)
Depreciation and amortization	**24,224**	18,227
Amortization of deferred financing costs	**779**	513
Stock-based compensation	**1,939**	2,752
Effect of recognizing rental revenues on a straight-line or market basis	**(2,545)**	346
Income from unconsolidated joint ventures less than (in excess of) operating distributions	**11,649**	(3,200)
Residential lot, outparcel and multi-family cost of sales, net of closing costs paid	**1,748**	2,264
Residential lot, outparcel and multi-family acquisition and development expenditures	**(10,484)**	(19,316)
Income tax benefit from stock options		(780)
Minority interest in income of consolidated entities	**922**	1,704
Changes in other operating assets and liabilities:		
Change in other receivables and other assets, net	**(7,178)**	(1,839)
Change in accounts payable and accrued liabilities	**3,899**	8,368
Net cash provided by operating activities	**28,324**	18,822
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment property sales	**33,455**	21,280
Proceeds from venture formation		19,338
Property acquisition and development expenditures	**(113,528)**	(158,102)
Investment in unconsolidated joint ventures	**(16,984)**	(4,363)
Distributions from unconsolidated joint ventures in excess of income	**2,142**	1,805
Investment in notes receivable, net	**(86)**	2,259
Change in other assets, net	**(9,034)**	(9,092)
Change in restricted cash	**706**	(71)
Net cash used in investing activities	**(103,329)**	(126,946)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit, term loan, and construction facilities	**220,325**	413,300
Repayment of credit facilities	**(99,325)**	(253,200)
Payment of loan issuance costs	**(42)**	(43)
Proceeds from other notes payable or construction loans	**15**	4,003

Repayment of other notes payable or construction loans	**(9,698)**	(1,281)
Common stock issued, net of expenses	**1,066**	4,618
Purchase of treasury stock		(7,699)
Income tax benefit from stock options		780
Common dividends paid	**(37,966)**	(38,445)
Preferred dividends paid	**(7,625)**	(7,625)
Contributions from minority partners		348
Distributions to minority partners	**(1,247)**	(1,257)
Net cash provided by financing activities	**65,503**	113,499
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,502)**	5,375
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**17,825**	11,538
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 8,323**	$ 16,913

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(UNAUDITED)

1. BASIS OF PRESENTATION AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

The condensed consolidated financial statements included herein include the accounts of Cousins Properties Incorporated (Cousins) and its consolidated subsidiaries, including Cousins Real Estate Corporation and its subsidiaries (CREC). All of the entities included in the condensed consolidated financial statements are hereinafter referred to collectively as the Company.

Cousins has elected to be taxed as a real estate investment trust (REIT) and intends to, among other things, distribute 100% of its federal taxable income to stockholders, thereby eliminating any liability for federal income taxes under current law. Therefore, the results included herein do not include a federal income tax provision for Cousins. CREC operates as a taxable REIT subsidiary and is taxed separately from Cousins as a C-Corporation. Accordingly, the condensed consolidated statements of income include a provision for, or benefit from, CREC s income taxes.

The condensed consolidated financial statements are unaudited and were prepared by the Company in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of management, these financial statements reflect all adjustments necessary (which adjustments are of a normal and recurring nature) for the fair presentation of the Company s financial position as of June 30, 2008 and results of operations for the three and six month periods ended June 30, 2008 and 2007. Results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of results expected for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The accounting policies employed are materially the same as those shown in Note 2 to the consolidated financial statements included in such Form 10-K, with the addition of the following new accounting pronouncements.

On January 1, 2008, the Company adopted Emerging Issues Task Force (EITF) No. 06-8, *Applicability of the Assessment of a Buyer s Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums,* which is discussed in Note 2 of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. This adoption had no effect on financial position or results of operations in the six months ended June 30, 2008, but the Company anticipates that the accounting under EITF 06-8 will have a material effect on the timing of revenue recognition for future multi-family residential projects.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* for non-financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. In accordance with SFAS No. 157, the Company applied the following fair value hierarchy:

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Level 1 Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.

Level 2 Assets and liabilities valued based on observable market data for similar instruments.

Level 3 Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and considers risk premiums that a market participant would require.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at and/or marked to fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Company must use alternative valuation techniques to derive a fair value measurement.

The Company applied the provisions of SFAS No. 157 in recording its interest rate swap at fair value (Level 2; swap is discussed further in Note 2 herein) and in its annual disclosures of the fair value of notes payable and receivable (Level 2). The adoption of SFAS No. 157 did not have a material impact on the Company s results of operations or financial condition.

2. NOTES PAYABLE, INTEREST EXPENSE AND COMMITMENTS AND CONTINGENCIES

The following table summarizes the terms and amounts of the notes payable outstanding at June 30, 2008 and December 31, 2007 ($ in thousands):

Description	Interest Rate	Term/ Amortization Period (Years)	Maturity	Outstanding at June 30, 2008	Outstanding at December 31, 2007
Credit facility (a maximum of $500,000), unsecured	LIBOR + 0.75% to 1.25%	4/N/A	8/29/11	**$ 173,600**	$ 52,600
Term facility (a maximum of $100,000), unsecured	Swapped rate of 5.01% + 0.70% to 1.20%	5/N/A	8/29/12	**100,000**	100,000
Terminus 100 mortgage note (interest only)	6.13%	5/N/A	10/1/12	**180,000**	180,000
The American Cancer Society Center mortgage note (interest only until October 1, 2011)	6.4515%	5/30	9/1/17	**136,000**	136,000
San Jose MarketCenter mortgage note (interest only)	5.60%	3/N/A	12/1/10	**83,300**	83,300
333/555 North Point Center East mortgage note	7.00%	10/25	11/1/11	**28,488**	28,862
Meridian Mark Plaza mortgage note	8.27%	10/28	9/1/10	**22,981**	23,196
100/200 North Point Center East mortgage note (interest only until July 1, 2010)	5.39%	5/30	6/1/12	**25,000**	25,000
	5.66%	10/25	1/1/16	**17,628**	17,818

The Points at Waterview mortgage note					
600 University Park Place mortgage note	7.38%	10/30	8/10/11	**12,870**	12,973
Lakeshore Park Plaza mortgage note (see note)	6.78%	10/25	11/1/08		8,785
King Mill Project I member loan (a maximum of $2,849)	9.00%	3/N/A	8/30/08	**2,703**	2,703
King Mill Project I second member loan (a maximum of $2,349)	9.00%	3/N/A	6/26/09	**2,047**	2,046
Jefferson Mill Project member loan (a maximum of $3,156)	9.00%	3/N/A	9/13/09	**2,615**	2,601
Other miscellaneous notes	Various	Various	Various	**274**	305
				$ 787,506	$ 676,189

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The Company maintains an interest rate swap agreement with a notional amount of $100 million in order to manage its interest rate risk under the Term Facility. This swap was designated as a cash flow hedge and effectively fixes the underlying LIBOR rate of the Term Facility at 5.01%. The interest rate on the Term Facility is equal to LIBOR plus a spread, as defined by the term loan agreement. At June 30, 2008 the spread over LIBOR was 0.90%. The fair value of the interest rate swap agreement at June 30, 2008 was a liability of approximately $4.0 million, which is recorded in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheet. The liability related to the interest rate swap decreased approximately $323,000 since December 31, 2007. The value of the interest rate swap is also recorded in Other Comprehensive Income which is included in the equity section of the Condensed Consolidated Balance Sheets. Ineffectiveness is analyzed on a quarterly basis and is recorded in the Condensed Consolidated Statements of Income. There was no ineffectiveness during the six months ended June 30, 2008.

The real estate and other assets of the American Cancer Society Center (the ACS Center) are restricted under the ACS Center loan agreement in that they are not available to settle debts of the Company. However, provided that the ACS Center loan has not incurred any uncured event of default, as defined in the loan agreement, the cash flows from the ACS Center, after payments of debt service, operating expenses and reserves, are available for distribution to the Company.

In June 2008, the Company repaid its mortgage note secured by Lakeshore Park Plaza. In July 2008, the Company executed a new, non-recourse mortgage loan for $18.4 million secured by the Lakeshore Park Plaza property. This loan matures August 1, 2012 and bears interest at 5.89%.

For the six months ended June 30, 2008 and 2007, interest expense was as follows ($ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Incurred	**$ 11,831**	$ 7,086	**$ 23,074**	$ 13,178
Capitalized	**(4,464)**	(6,555)	**(9,432)**	(12,647)