COUSINS PROPERTIES INC
Form 10-Q
May 09, 2007

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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 March 31, 2007

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)

2500 Windy Ridge Parkway, Atlanta, Georgia, 30339-5683

(Former Name or Former Address, 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 of accelerated filer and large accelerated filer 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

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 April 30, 2007
Common Stock, $1 par value per share	52,026,939 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, 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 those described in Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. 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)

	March 31, 2007	December 31, 2006
ASSETS		
PROPERTIES:		
Operating properties, net of accumulated depreciation of $124,651 and $115,723 in 2007 and 2006, respectively	**$ 556,051**	$ 472,375
Operating properties held-for-sale		1,470
Land held for investment or future development	**98,472**	101,390
Projects under development	**297,191**	300,382
Residential lots under development	**29,905**	27,624
Total properties	**981,619**	903,241
CASH AND CASH EQUIVALENTS	**8,641**	11,538
RESTRICTED CASH	**2,937**	2,824
NOTES AND OTHER RECEIVABLES, net of allowance for doubtful accounts of $631 and $501 in 2007 and 2006, respectively	**32,187**	32,138
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	**186,228**	181,918
OTHER ASSETS	**58,949**	65,094
TOTAL ASSETS	**$ 1,270,561**	$ 1,196,753
LIABILITIES AND STOCKHOLDERS INVESTMENT		
NOTES PAYABLE	**$ 367,681**	$ 315,149
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**60,294**	55,538
DEFERRED GAIN	**166,694**	154,104
DEPOSITS AND DEFERRED INCOME	**2,348**	2,062
TOTAL LIABILITIES	**597,017**	526,853
MINORITY INTERESTS	**46,127**	43,985
COMMITMENTS AND CONTINGENT LIABILITIES		
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
	100,000	100,000

7.50% Series B cumulative redeemable preferred stock, $25 liquidation preference; 4,000,000 shares issued and outstanding		
Common stock, $1 par value, 150,000,000 shares authorized, 54,709,961 and 54,439,310 shares issued in 2007 and 2006, respectively	**54,710**	54,439
Additional paid-in capital	**342,991**	336,974
Treasury stock at cost, 2,691,582 shares	**(64,894)**	(64,894)
Cumulative undistributed net income	**94,610**	99,396
TOTAL STOCKHOLDERS INVESTMENT	**627,417**	625,915
TOTAL LIABILITIES AND STOCKHOLDERS INVESTMENT	**$ 1,270,561**	$ 1,196,753

See accompanying 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 March 31, 2007	Three Months Ended March 31, 2006
REVENUES:		
Rental property revenues	$ **24,437**	$ 22,759
Fee income	**8,066**	8,381
Multi-family residential unit sales		6,579
Residential lot and outparcel sales	**1,426**	4,505
Interest and other	**3,679**	2,662
	37,608	44,886
COSTS AND EXPENSES:		
Rental property operating expenses	**10,222**	8,566
General and administrative expenses	**14,690**	13,576
Depreciation and amortization	**9,520**	8,156
Multi-family residential unit cost of sales		5,358
Residential lot and outparcel cost of sales	**1,208**	3,203
Interest expense		3,613
Other	**360**	454
	36,000	42,926
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES, MINORITY INTEREST AND INCOME FROM UNCONSOLIDATED JOINT VENTURES	**1,608**	1,960
BENEFIT (PROVISION) FOR INCOME TAXES FROM OPERATIONS	**1,027**	(2,370)
MINORITY INTEREST IN INCOME OF CONSOLIDATED SUBSIDIARIES	**(862)**	(1,078)
INCOME FROM UNCONSOLIDATED JOINT VENTURES	**3,708**	12,123
INCOME FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF INVESTMENT PROPERTIES	**5,481**	10,635
GAIN ON SALE OF INVESTMENT PROPERTIES, NET OF APPLICABLE INCOME TAX PROVISION	**4,440**	805
INCOME FROM CONTINUING OPERATIONS	**9,921**	11,440

DISCONTINUED OPERATIONS, NET OF APPLICABLE INCOME TAX PROVISION:				
Income from discontinued operations		**135**		577
Gain on sale of investment properties		**8,164**		191
		8,299		768
NET INCOME		**18,220**		12,208
DIVIDENDS TO PREFERRED STOCKHOLDERS		**(3,813)**		(3,813)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$**	**14,407**	$	8,395
PER SHARE INFORMATION BASIC:				
Income from continuing operations	**$**	**0.12**	$	0.15
Income from discontinued operations		**0.16**		0.02
Basic net income available to common stockholders	**$**	**0.28**	$	0.17
PER SHARE INFORMATION DILUTED:				
Income from continuing operations	**$**	**0.11**	$	0.15
Income from discontinued operations		**0.16**		0.01
Diluted net income available to common stockholders	**$**	**0.27**	$	0.16
CASH DIVIDENDS DECLARED PER COMMON SHARE	**$**	**0.37**	$	0.37
WEIGHTED AVERAGE SHARES		**51,719**		50,289
DILUTED WEIGHTED AVERAGE SHARES		**53,596**		52,002

See accompanying 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)

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 18,220**	$ 12,208
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Gain on sale of investment properties, net of income tax provision	**(12,604)**	(996)
Depreciation and amortization	**9,520**	10,823
Amortization of deferred financing costs	**260**	264
Stock-based compensation	**1,486**	1,812
Effect of recognizing rental revenues on a straight-line or market basis	**425**	(1,119)
Income from unconsolidated joint ventures less than (in excess of) operating distributions	**(1,617)**	4,790
Residential lot, outparcel and multi-family cost of sales, net of closing costs paid	**1,192**	8,495
Residential lot, outparcel and multi-family acquisition and development expenditures	**(4,203)**	(7,131)
Income tax benefit from stock options	**(728)**	(104)
Minority interest in income of consolidated subsidiaries	**862**	1,078
Changes in other operating assets and liabilities:		
Change in other receivables	**(1,820)**	(7,621)
Change in accounts payable and accrued liabilities	**(1,867)**	2,270
Net cash provided by operating activities	**9,126**	24,769
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment property sales	**21,280**	1,250
Proceeds from venture formation	**15,752**	
Property acquisition and development expenditures	**(77,616)**	(88,461)
Investment in unconsolidated joint ventures	**(2,325)**	(2,183)
Distributions from unconsolidated joint ventures in excess of income	**1,447**	6,329
Proceeds from (investment in) notes receivable	**2,007**	(1,157)
Change in other assets, net	**(5,978)**	(207)
Change in restricted cash	**(113)**	(232)
Net cash used in investing activities	**(45,546)**	(84,661)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit and construction facilities	**688,200**	328,299
Repayment of credit and construction facilities	**(635,700)**	(249,268)
Payment of loan issuance costs	**(269)**	(1,849)
Proceeds from other notes payable or construction loans	**660**	5,917

Repayment of other notes payable or construction loans		**(628)**		(1,282)
Common stock issued, net of expenses		**4,074**		1,061
Income tax benefit from stock options		**728**		104
Common dividends paid		**(19,194)**		(18,760)
Preferred dividends paid		**(3,813)**		(3,813)
Contributions from minority partners		**116**		
Distributions to minority partners		**(651)**		(374)
Net cash provided financing activities		**33,523**		60,035
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,897)**		143
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**11,538**		9,336
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$**	**8,641**	$	9,479

See accompanying notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007
(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 or the Company) 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. 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 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 March 31, 2007 and results of operations for the three month periods ended March 31, 2007 and 2006. Results of operations for the three months ended March 31, 2007 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, 2006. 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.

Reclassifications

In periods prior to the fourth quarter of 2006, the Company recorded reimbursements of salary and benefits of on-site employees pursuant to management agreements with third parties and unconsolidated joint ventures as reductions of general and administrative expenses. In the fourth quarter of 2006, the Company determined that these amounts should be recorded as revenues in accordance with Emerging Issues Task Force (EITF) No. 99-19 and, accordingly, began recording these reimbursements in Fee Income on the Condensed Consolidated Statements of Income. Prior periods have been revised to conform to this new presentation. As a result, Fee Income and General and Administrative Expenses have increased by $3.6 million in the first quarter of 2006 when compared to amounts previously reported.

New Accounting Pronouncement

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainties in Income Taxes (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for recognizing tax return positions in the financial statements as those which are more-likely-than-not to be sustained upon examination by the taxing authority. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for income tax uncertainties in interim periods and the level of disclosures associated with any recorded income tax uncertainties. The Company believes that all of its material income tax filing positions and deductions would be sustained upon audit under current tax laws and regulations. Therefore, the Company recorded no reserves and no cumulative effect adjustment in the financial statements in conjunction with the adoption of FIN 48, and there was no impact on the Company s financial position, results of operations or cash flows.

2. CASH FLOWS SUPPLEMENTAL INFORMATION

The following table summarizes supplemental information related to cash flows ($ in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Interest paid, net of amounts capitalized	**$**	$ 3,036
Income taxes paid, net of refunds		1,094
Non-Cash Transactions		
Transfer from operating properties to land	**2,392**	7,250
Transfer from projects under development to operating properties	**80,730**	
Transfer from other assets to projects under development	**11,785**	
Transfer from other assets to operating properties	**323**	
Accrued capital expenditures excluded from development and acquisition expenditures	**3,881**	974
Transfer from land to projects under development		2,923
Transfer from other assets to land		228

3. NOTES PAYABLE, INTEREST EXPENSE AND COMMITMENTS AND CONTINGENCIES

The following table summarizes the terms and amounts of the notes payable outstanding at March 31, 2007 and December 31, 2006 ($ in thousands):

Description	Interest Rate	Term/ Amortization Period (Years)	Final Maturity	Outstanding at March 31, 2007	Outstanding at December 31, 2006
Credit facility (a maximum of $400,000), unsecured	LIBOR + 0.8% to 1.3%	4/N/A	3/07/10	**$ 169,800**	$ 128,200
Construction facility (a maximum of $100,000), unsecured	LIBOR + 0.8% to 1.3%	4/N/A	3/07/10	**75,600**	64,700
333/555 North Point Center East mortgage note	7.00%	10/25	11/01/11	**29,398**	29,571
Meridian Mark Plaza mortgage note	8.27%	10/28	9/01/10	**23,503**	23,602
100/200 North Point Center East mortgage note	7.86%	10/25	8/01/07	**22,230**	22,365
The Points at Waterview mortgage note	5.66%	10/25	1/01/16	**18,094**	18,183
600 University Park Place mortgage note	7.38%	10/30	8/10/11	**13,121**	13,168
Lakeshore Park Plaza mortgage note	6.78%	10/25	11/01/08	**9,009**	9,082
King Mill Project I member loan (a maximum of $2,849)	9.00%	3/N/A	8/30/08	**2,666**	2,625
King Mill Project I second member loan (a maximum of $2,349)	9.00%	3/N/A	6/26/09	**1,850**	1,815
Jefferson Mill Project member loan (a maximum of $3,156)	9.00%	3/N/A	9/13/09	**2,016**	1,432
Other miscellaneous notes	Various	Various	Various	**394**	406
				$ 367,681	$ 315,149

The Company had $169.8 million drawn on its unsecured credit facility as of March 31, 2007 and, net of $1.1 million reserved for outstanding letters of credit, the Company had $229.1 million available for future borrowings under this facility. The Company had $75.6 million drawn on its construction facility as of March 31, 2007, with $24.4 million available for future borrowings under this facility.

For the three months ended March 31, 2007 and 2006, interest expense was recorded as follows ($ in thousands):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Incurred	**$ 6,091**	**$ 8,654**
Capitalized	**(6,091)**	**(5,041)**
Expensed	**$**	**$ 3,613**

At March 31, 2007, the Company had outstanding letters of credit and performance bonds of $21.2 million. The Company has several projects under development and redevelopment for which it estimates total future funding commitments of $421.4 million at March 31, 2007. Additionally, the Company has future obligations as a lessor of office, retail and industrial space to fund approximately $11.1 million of tenant improvements as of March 31, 2007. As a lessee, the Company has future obligations under ground and office leases of approximately $16.5 million at March 31, 2007.

4. EARNINGS PER SHARE

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net

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income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period. Diluted weighted average number of common shares is calculated to reflect the potential dilution under the treasury stock method that would occur if stock options, restricted stock or other contracts to issue common stock were exercised and resulted in additional common shares outstanding. The numerator used in the Company s per share calculations is the same for both basic and diluted net income per share.

Weighted average shares-basic and weighted average shares-diluted were as follows (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Weighted-average shares-basic	**51,719**	**50,289**
Dilutive potential common shares:		
Stock options	**1,841**	**1,562**
Restricted stock	**36**	**151**
Weighted-average shares-diluted	**53,596**	**52,002**
Weighted-average anti-dilutive options not included		**906**

5. STOCK-BASED COMPENSATION

The Company adopted Statement of Financial Accounting Standard (SFAS) No. 123(R), Share-Based Payment, on January 1, 2006, using the modified prospective method. SFAS 123(R) requires that companies recognize as compensation expense the grant date fair value of share-based awards over the required service period of the awards. The Company has several types of stock-based compensation stock options, restricted stock and restricted stock units which are described in Note 7 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The Company uses the Black-Scholes model to value its new stock option grants under SFAS 123(R) and recognizes compensation expense in general and administrative expense in the Condensed Consolidated Statements of Income over the related awards vesting period. A portion of share-based payment expense is capitalized to projects under development in accordance with SFAS No. 67. SFAS 123(R) also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation, and to reflect the benefits of tax deductions in excess of recognized compensation cost to be reported as both a financing cash inflow and an operating cash outflow.

The Company expensed approximately $1.6 million and $1.4 million in the first quarter of 2007 and 2006, respectively, for stock-based compensation, after the effect of capitalization to projects under development and income tax benefit. As of March 31, 2007, the Company had $19.7 million of total unrecognized compensation cost related to stock-based compensation, which will be recognized over a weighted average period of 2.8 years.

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The risk free interest rate utilized in the Black-Scholes calculation is the interest rate on U.S. Government Bonds and Notes having the same life as the estimated life of the Company s option awards. Expected life of the options granted was computed using historical data reflecting actual hold periods plus an estimated hold period for unexercised options outstanding using the mid-point between 2007 and the expiration date. Expected volatility is

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based on the historical volatility of the Company s stock over a period relevant to the related stock option grant. The assumed dividend yield is based on the annual dividend rate for regular dividends at the time of grant. Below are the Black-Scholes inputs used to calculate the weighted-average fair value of 2007 option grants:

	Three Months Ended March 31, 2007
Assumptions:	
Risk free interest rate	**4.57%**
Expected life	**6.60 years**
Expected volatility	**21.07%**
Expected dividend yield	**4.68%**
Result:	
Weighted-average fair value of options granted	**$ 5.08**

The following table summarizes stock option activity during the three months ended March 31, 2007:

	Number of Options (in thousands)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Contractual Life (years)
Outstanding at December 31, 2006	6,117	$ 23.27		
Granted	48	32.86		
Exercised	(284)	15.97		
Forfeited	(44)	30.82		
Outstanding at March 31, 2007	5,837	$ 23.65	$ 53,741	6.62
Exercisable at March 31, 2007				