

COUSINS PROPERTIES INC

Form 10-Q

October 30, 2012

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

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

For the quarterly period ended September 30, 2012

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: 001-11312

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 500, 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 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Smaller reporting company

(Do not check if a smaller
reporting company)

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

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 October 26, 2012

Common Stock, \$1 par value per share

104,119,830 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, as itemized in Item 1A included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. These forward-looking statements include information about possible or assumed future results of the Company's business and the Company's financial condition, liquidity, results of operations, plans and objectives. They also include, among other things, statements regarding subjects that are forward-looking by their nature, such as:

- the Company's business and financial strategy;
- the Company's ability to obtain future financing arrangements;
- future investments and future dispositions of assets;
- the Company's understanding of its competition and its ability to compete effectively;
- projected operating results;
- market and industry trends;
- estimates relating to future distributions;
- projected capital expenditures; and
- interest rates.

The forward-looking statements are based upon management's beliefs, assumptions and expectations of the Company's future performance, taking into account information currently available. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known. If a change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in forward-looking statements. Actual results may vary from forward-looking statements due to, but not limited to, the following:

- availability and terms of capital and financing, to refinance indebtedness as it matures;
- failure of purchase, sale or other contracts to ultimately close;
- the availability of buyers and adequate pricing with respect to the disposition of assets;
- risks and uncertainties related to national and local economic conditions, the real estate industry in general and in specific markets, and the commercial markets in particular;
- changes in the Company's business and financial strategy and/or continued market and economic conditions requiring the recognition of impairment losses;
- the effects of the sale of the Company's third party management business;
- leasing risks, including the inability to obtain new tenants or renew expiring tenants on favorable terms, or at all, and the ability to lease newly developed, recently acquired or current vacant space;
- financial condition of existing tenants;
- volatility in interest rates and insurance rates;
- the availability of sufficient investment opportunities;
- competition from other developers or investors;
- the risks associated with real estate developments and acquisitions (such as construction delays, cost overruns and leasing risk);
- loss of key personnel;
- potential liability for uninsured losses, condemnation or environmental issues;
- potential liability for a failure to meet regulatory requirements;
- the financial condition and liquidity of, or disputes with, joint venture partners;
- any failure to comply with debt covenants under credit agreements; and
- any failure to continue to qualify for taxation as a real estate investment trust.

The words “believes,” “expects,” “anticipates,” “estimates,” “plans,” “may,” “intend,” “will,” or similar expressions are intended to identify forward-looking statements. Although the Company believes 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. 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, except as required under U.S. federal securities laws.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
PROPERTIES:		
Operating properties, net of accumulated depreciation of \$247,774 and \$289,473 in 2012 and 2011, respectively	\$674,615	\$884,652
Projects under development	24,668	11,325
Land held	51,217	54,132
Residential lots	11,965	13,195
Other	431	637
Total properties	762,896	963,941
OPERATING PROPERTIES AND RELATED ASSETS HELD FOR SALE, net of accumulated depreciation of \$46,936 in 2012	174,054	—
CASH AND CASH EQUIVALENTS	5,469	4,858
RESTRICTED CASH	2,749	4,929
NOTES AND ACCOUNTS RECEIVABLE, net of allowance for doubtful accounts of \$1,207 and \$5,100 in 2012 and 2011, respectively	11,163	11,359
DEFERRED RENTS RECEIVABLE	37,840	37,141
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	139,782	160,587
OTHER ASSETS	65,148	52,720
TOTAL ASSETS	\$1,199,101	\$1,235,535
LIABILITIES AND EQUITY		
NOTES PAYABLE	\$518,630	\$539,442
ACCOUNTS PAYABLE AND OTHER LIABILITIES	40,073	38,592
DEFERRED INCOME	12,498	17,343
TOTAL LIABILITIES	571,201	595,377
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE NONCONTROLLING INTERESTS	—	2,763
STOCKHOLDERS' INVESTMENT:		
Preferred stock, 20,000,000 shares authorized, \$1 par value:		
7.75% Series A cumulative redeemable preferred stock, \$25 liquidation preference; 2,993,090 shares issued and outstanding in 2012 and 2011	74,827	74,827
7.50% Series B cumulative redeemable preferred stock, \$25 liquidation preference; 3,791,000 shares issued and outstanding in 2012 and 2011	94,775	94,775
	107,706	107,272

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Common stock, \$1 par value, 250,000,000 shares authorized, 107,705,782 and 107,272,078 shares issued in 2012 and 2011, respectively			
Additional paid-in capital	689,194	687,835	
Treasury stock at cost, 3,570,082 shares in 2012 and 2011	(86,840	) (86,840)
Distributions in excess of cumulative net income	(285,508	) (274,177)
TOTAL STOCKHOLDERS' INVESTMENT	594,154	603,692	
Nonredeemable noncontrolling interests	33,746	33,703	
TOTAL EQUITY	627,900	637,395	
TOTAL LIABILITIES AND EQUITY	\$1,199,101	\$1,235,535	

See accompanying notes.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES:				
Rental property revenues	\$32,592	\$27,022	\$92,846	\$78,802
Fee income	7,343	3,909	12,985	10,729
Residential lot sales	732	165	2,216	410
Other	3,061	447	4,587	6,154
	43,728	31,543	112,634	96,095
COSTS AND EXPENSES:				
Rental property operating expenses	14,400	11,775	39,595	33,658
Residential lot and outparcel cost of sales	354	158	1,334	303
General and administrative expenses	5,255	4,295	17,523	17,828
Interest expense	5,793	6,601	17,936	21,503
Reimbursed expenses	1,235	1,866	3,968	4,749
Depreciation and amortization	11,567	8,719	32,526	25,562
Impairment losses	488	—	488	3,508
Separation expenses	574	15	866	193
Other	2,257	773	3,504	4,760
	41,923	34,202	117,740	112,064
LOSS ON EXTINGUISHMENT OF DEBT	—	(74	) (94	) (74
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES, UNCONSOLIDATED JOINT VENTURES AND SALE OF INVESTMENT PROPERTIES	1,805	(2,733	) (5,200	) (16,043
(PROVISION) BENEFIT FOR INCOME TAXES FROM OPERATIONS	(60	) 180	(120	) 217
INCOME FROM UNCONSOLIDATED JOINT VENTURES	2,269	2,660	14,217	7,468
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF INVESTMENT PROPERTIES	4,014	107	8,897	(8,358
GAIN ON SALE OF INVESTMENT PROPERTIES	60	59	146	177
INCOME (LOSS) FROM CONTINUING OPERATIONS	4,074	166	9,043	(8,181
INCOME (LOSS) FROM DISCONTINUED OPERATIONS:				
Income (loss) from discontinued operations	1,760	2,619	(5,093	) 6,503
Gain on sale of discontinued operations, net	7,444	2,821	8,204	2,437
	9,204	5,440	3,111	8,940
NET INCOME	13,278	5,606	12,154	759
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(608	) (2,192	) 259	(3,454
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	12,670	3,414	12,413	(2,695
DIVIDENDS TO PREFERRED STOCKHOLDERS	(3,226	) (3,226	) (9,680	) (9,680
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$9,444	\$188	\$2,733	\$(12,375

PER COMMON SHARE INFORMATION — BASIC AND DILUTED:

Income (loss) from continuing operations attributable to controlling interest	\$—	\$(0.05)	\$—	\$(0.21)
Income from discontinued operations	0.09	0.05	0.03	0.09
Net income (loss) available to common stockholders	\$0.09	\$—	\$0.03	\$(0.12)
WEIGHTED AVERAGE SHARES — BASIC	104,193	103,715	104,120	103,631
WEIGHTED AVERAGE SHARES — DILUTED	104,203	103,715	104,125	103,631
DIVIDENDS DECLARED PER COMMON SHARE	\$0.045	\$0.045	\$0.135	\$0.135
See accompanying notes				

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended September 30, 2012 and 2011

(unaudited, in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Distributions in Excess of Net Income	Stockholders Investment	Nonredeemable, Noncontrolling Interests	Total Equity
Balance								
December 31, 2011	\$ 169,602	\$ 107,272	\$ 687,835	\$(86,840)	\$(274,177)	\$ 603,692	\$ 33,703	\$ 637,395
Net income	—	—	—	—	12,413	12,413	1,743	14,156
Common stock issued pursuant to:								
Director stock grants	—	72	468	—	—	540	—	540
Restricted stock grants, net of amounts withheld for income taxes	—	448	(617)	—	—	(169)	—	(169)
Amortization of stock options and restricted stock, net of forfeitures	—	(86)	1,508	—	—	1,422	—	1,422
Distributions to noncontrolling interests	—	—	—	—	—	—	(1,700)	(1,700)
Cash preferred dividends paid	—	—	—	—	(9,680)	(9,680)	—	(9,680)
Cash common dividends paid	—	—	—	—	(14,064)	(14,064)	—	(14,064)
Balance								
September 30, 2012	\$ 169,602	\$ 107,706	\$ 689,194	\$(86,840)	\$(285,508)	\$ 594,154	\$ 33,746	\$ 627,900
Balance								
December 31, 2010	\$ 169,602	\$ 106,962	\$ 684,551	\$(86,840)	\$(114,196)	\$ 760,079	\$ 32,772	\$ 792,851
Net income (loss)	—	—	—	—	(2,695)	(2,695)	3,358	663
Common stock issued pursuant to:								
Director stock grants	—	82	625	—	—	707	—	707

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Stock option exercises	—	4	30	—	—	34	—	34
Restricted stock grants, net of amounts withheld for income taxes	—	244	(263)	—	—	(19)	—	(19)
Amortization of stock options and restricted stock, net of forfeitures	—	(8)	1,691	—	—	1,683	—	1,683
Change in fair value of redeemable noncontrolling interests	—	—	(526)	—	—	(526)	—	(526)
Contributions from noncontrolling interests	—	—	—	—	—	—	1,300	1,300
Distributions to noncontrolling interests	—	—	—	—	—	—	(1,712)	(1,712)
Cash preferred dividends paid	—	—	—	—	(9,680)	(9,680)	—	(9,680)
Cash common dividends paid	—	—	—	—	(13,982)	(13,982)	—	(13,982)
Balance								
September 30, 2011	\$ 169,602	\$ 107,284	\$ 686,108	\$ (86,840)	\$ (140,553)	\$ 735,601	\$ 35,718	\$ 771,319

See accompanying notes.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$12,154	\$759
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of investment properties and other, net, including discontinued operations	(8,350)	(2,614)
Loss on extinguishment of debt	94	74
Impairment losses	12,721	3,508
Depreciation and amortization, including discontinued operations	41,148	40,283
Amortization of deferred financing costs	784	1,480
Stock-based compensation	1,422	1,683
Effect of recognizing rental revenues on a straight-line or market basis	(3,056)	(5,302)
Income from unconsolidated joint ventures	(14,217)	(7,468)
Operating distributions from unconsolidated joint ventures	12,065	7,416
Residential lot and multi-family cost of sales, net of closing costs paid	1,385	2,547
Residential lot development expenditures	(51)	(818)
Changes in other operating assets and liabilities:		
Change in other receivables and other assets	(2,069)	(1,015)
Change in accounts payable and other liabilities	(1,619)	(2,052)
Net cash provided by operating activities	52,411	38,481
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment properties and other	73,052	69,615
Property acquisition, development and tenant asset expenditures	(94,118)	(34,700)
Investment in unconsolidated joint ventures	(6,571)	(13,885)
Distributions from unconsolidated joint ventures	25,767	5,403
Collection of notes receivable	1,156	348
Change in other assets	(2,733)	(3,210)
Change in restricted cash	2,180	10,007
Net cash provided by (used in) investing activities	(1,267)	33,578
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility	414,200	98,850
Repayments of credit facility	(518,950)	(84,450)
Proceeds from notes payable and construction facilities	111,632	—
Repayment of notes payable	(27,694)	(58,401)
Payment of loan issuance costs	(3,419)	(442)
Common stock issued, net of expenses	—	18
Common dividends paid	(14,064)	(13,982)
Preferred dividends paid	(9,680)	(9,680)
Contributions from noncontrolling interests	—	1,300
Distributions to noncontrolling interests	(2,558)	(7,237)
Net cash used in financing activities	(50,533)	(74,024)

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	611	(1,965)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,858	7,599	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$5,469	\$5,634	
INTEREST PAID, NET OF AMOUNTS CAPITALIZED	\$17,320	\$19,679	
INCOME TAXES REFUNDED	\$—	\$377	
SIGNIFICANT NON-CASH TRANSACTIONS:			
Transfer from other assets to investment in unconsolidated joint ventures	\$—	\$6,050	
Transfer from operating properties to operating properties and related assets held for sale	\$174,054	\$—	

See accompanying notes.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

1. BASIS OF PRESENTATION

The 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 consolidated financial statements are hereinafter referred to collectively as the “Company.”

The Company develops, acquires, manages and owns primarily office and retail real estate properties. 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, if applicable, the Statements of Operations 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 (“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 September 30, 2012 and the results of operations for the three and nine months ended September 30, 2012 and 2011. The results of operations for the three and nine months ended September 30, 2012 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 consolidated 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, 2011. The accounting policies employed are substantially the same as those shown in Note 2 to the consolidated financial statements included in such Form 10-K.

During the third quarter of 2012, the Company identified an error in the previous classification of the \$12.2 million impairment loss associated with the sale The Avenue Collierville, which occurred during the second quarter of 2012. For the nine month period ended September 30, 2012, the Company has corrected the classification of the impairment loss from impairment losses to income (loss) from discontinued operations on the Consolidated Statements of Operations. Management does not believe such correction is material to the previously issued financial statements. In the second quarter of 2012, the Company reclassified deferred rents receivable from notes and accounts receivable to a separate line on the Consolidated Balance Sheets. In addition, deferred gain, which was previously presented as a separate line on the Consolidated Balance Sheets, was reclassified to deferred income. Also, accounts payable and accrued liabilities were revised to include security and construction deposits, which were previously presented in deposits and deferred income. Prior periods have been revised to conform to this new presentation.

2. NOTES PAYABLE, INTEREST EXPENSE AND COMMITMENTS AND CONTINGENCIES

The following table summarizes the terms and amounts of the Company's notes payable at September 30, 2012 and December 31, 2011 (\$ in thousands):

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Description	Interest Rate	Term/Amortization Period (Years)	Maturity	September 30, 2012	December 31, 2011
Terminus 100 mortgage note	5.25 %	12/30	1/1/2023	\$ 136,651	\$ 138,194
The American Cancer Society Center mortgage note	6.45 %	10/30	9/1/2017	134,615	135,650
191 Peachtree Tower mortgage note (interest only until May 1, 2016) (see discussion below)	3.35 %	6.5/30	10/1/2018	100,000	—
Credit Facility, unsecured (see discussion below)	1.71 %	4/N/A	2/28/2016	93,500	198,250
Meridian Mark Plaza mortgage note	6.00 %	10/30	8/1/2020	26,286	26,554
100/200 North Point Center East mortgage note (see discussion below)	5.39 %	5/30	6/1/2012	—	24,478
The Points at Waterview mortgage note	5.66 %	10/25	1/1/2016	15,775	16,135
Mahan Village construction facility	1.86 %	3/N/A	9/12/2014	11,633	1
Callaway Gardens	4.13 %	N/A	11/18/2013	170	180
				\$ 518,630	\$ 539,442

Credit Facility

On February 28, 2012, the Company amended its \$350 million senior unsecured line of credit by entering into the Second Amended and Restated Credit Agreement (the "Credit Facility"), which replaced the Amended and Restated Credit Agreement dated August 29, 2007 (the "Old Facility"). The Credit Facility amended the Old Facility by, among other things, extending the maturity date from August 29, 2012 to February 28, 2016, with an additional one-year extension option upon certain conditions and with the payment of a fee. It also added an accordion feature, which authorized the maximum amount available to be borrowed to increase to \$500 million under certain conditions and in specified increments.

The Credit Facility contains financial covenants that require, among other things, the maintenance of an unencumbered interest coverage ratio of at least 2.00; a fixed charge coverage ratio of at least 1.40, increasing to 1.50 during any extension period; and maximum leverage of no more than 60%.

The Credit Facility also reduced the Company's interest rate spreads on borrowings. The Company may borrow funds at an interest rate, at its option, calculated as either (1) the current London Interbank Offered Rate (LIBOR) plus the applicable spread as detailed below or (2) the greater of Bank of America's prime rate, the federal funds rate plus 0.50% or the one-month LIBOR plus 1.0% (the "Base Rate"), plus the applicable spread as detailed below. The Company also pays an annual facility fee on the total commitment under the Credit Facility. The pricing spreads and the Facility Fee under the Credit Facility are as follows:

Leverage Ratio	Applicable % Spread for LIBOR	Applicable % Spread for Base Rate	Annual Facility Fee %
≤ 40%	1.50%	0.50%	0.20%
>40% but ≤ 50%	1.60%	0.60%	0.25%
>50% but ≤ 55%	1.90%	0.90%	0.35%
>55% but ≤ 60%	2.10%	1.10%	0.40%

The Company selected the LIBOR for interest calculation purposes in September 2012, and the applicable spread at September 30, 2012 was 1.50%.

Other Debt Activity

On March 28, 2012, the Company entered into a \$100 million mortgage note payable secured by 191 Peachtree Tower, a 1.2 million square foot office building in Atlanta, Georgia. The interest rate is 3.35% and interest-only payments are due monthly through May 1, 2016, followed by monthly principal and interest payments through October 1, 2018, the maturity date.

In April 2012, the Company prepaid the 100/200 North Point Center East mortgage note in full, without penalty.

Fair Value

At September 30, 2012 and December 31, 2011, the aggregate estimated fair values of the Company's notes payable were \$539.9 million and \$568.5 million, respectively, calculated by discounting future cash flows using estimated rates at which similar loans could have been obtained at those respective dates. This fair value calculation is considered to be a Level 2 calculation under the guidelines as set forth in ASC 820, "Fair Value Measurements and Disclosures," as the Company utilizes estimates of market rates for similar type loans from third party brokers in its discounted cash flow calculations.

Other Information

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For the three and nine months ended September 30, 2012 and 2011, interest expense was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total interest incurred	\$6,337	\$6,838	\$19,395	\$21,740
Interest capitalized	(544	) (237	) (1,459	) (237
Total interest expense	\$5,793	\$6,601	\$17,936	\$21,503

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.