COUSINS PROPERTIES INC
Form 10-Q
November 02, 2011

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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 September 30, 2011

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: 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 þ No o

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

Large accelerated filer o	Accelerated filer þ	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 October 28, 2011

Common Stock, $1 par value per share	103,713,583 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, 2010. 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;
- the Company s understanding of its competition and its ability to compete effectively;
- potential acquisitions, new investments and/or dispositions;
- 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, both to fund operations and to refinance indebtedness as it matures;
- risks and uncertainties related to national and local economic conditions, the real estate industry in general and in specific markets, and the commercial and residential markets in particular;
- changes in the Company s business and financial strategy and/or continued adverse market and economic conditions requiring the recognition of additional impairment losses;
- leasing risks, including an inability to obtain new tenants or renew tenants on favorable terms, or at all, upon the expiration of existing leases and the ability to lease newly developed or currently unleased space;
- financial condition of existing tenants;
- rising interest rates and insurance rates;
- the availability of sufficient development or investment opportunities;
- failure of purchase, sale or other contracts to ultimately close;
- competition from other developers or investors;
- the risks associated with real estate developments and investments (such as construction delays, cost overruns and leasing/sales risk);
- 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 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, 2011 (Unaudited)	December 31, 2010
ASSETS		
PROPERTIES:		
Operating properties, net of accumulated depreciation of $286,399 and $274,925 in 2011 and 2010, respectively	**$ 826,015**	$ 898,119
Projects under development	**8,646**	
Land held for investment or future development	**115,521**	123,879
Residential lots	**63,835**	63,403
Other	**738**	2,994
Total properties	**1,014,755**	1,088,395
CASH AND CASH EQUIVALENTS	**5,634**	7,599
RESTRICTED CASH	**5,514**	15,521
NOTES AND OTHER RECEIVABLES, net of allowance for doubtful accounts of $5,423 and $6,287 in 2011 and 2010, respectively	**50,610**	48,395
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	**181,947**	167,108
OTHER ASSETS	**35,916**	44,264
TOTAL ASSETS	**$ 1,294,376**	$ 1,371,282
LIABILITIES AND EQUITY		
NOTES PAYABLE	**$ 462,134**	$ 509,509
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**30,732**	32,388
DEFERRED GAIN	**4,039**	4,216
DEPOSITS AND DEFERRED INCOME	**16,766**	18,029
TOTAL LIABILITIES	**513,671**	564,142
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE NONCONTROLLING INTERESTS	**9,386**	14,289
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 2011 and 2010	**74,827**	74,827
	94,775	94,775

7.50% Series B cumulative redeemable preferred stock, $25 liquidation preference; 3,791,000 shares issued and outstanding in 2011 and 2010				
Common stock, $1 par value, 250,000,000 shares authorized, 107,283,665 and 106,961,959 shares issued in 2011 and 2010, respectively		**107,284**		106,962
Additional paid-in capital		**686,108**		684,551
Treasury stock at cost, 3,570,082 shares in 2011 and 2010		**(86,840)**		(86,840)
Distributions in excess of cumulative net income		**(140,553)**		(114,196)
TOTAL STOCKHOLDERS INVESTMENT		**735,601**		760,079
Nonredeemable noncontrolling interests		**35,718**		32,772
TOTAL EQUITY		**771,319**		792,851
TOTAL LIABILITIES AND EQUITY	**$**	**1,294,376**	$	1,371,282

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
REVENUES:				
Rental property revenues	**$ 35,268**	$ 33,840	**$ 104,094**	$ 100,630
Fee income	**3,909**	3,966	**10,729**	11,238
Third party management and leasing revenues	**5,398**	4,724	**14,091**	14,003
Multi-family residential unit sales		6,637	**4,664**	24,726
Residential lot and outparcel sales	**165**	630	**410**	14,765
Other	**448**	245	**1,517**	540
	45,188	50,042	**135,505**	165,902
COSTS AND EXPENSES:				
Rental property operating expenses	**14,968**	14,150	**42,705**	42,029
Third party management and leasing expenses	**4,241**	4,122	**12,414**	13,294
Multi-family residential unit cost of sales		5,190	**2,487**	19,268
Residential lot and outparcel cost of sales	**158**	549	**303**	9,920
General and administrative expenses	**4,295**	6,172	**17,828**	20,952
Interest expense	**6,601**	8,702	**21,503**	28,769
Reimbursed expenses	**1,866**	1,392	**4,749**	4,649
Depreciation and amortization	**12,891**	13,115	**38,310**	39,094
Impairment loss			**3,508**	586
Separation expenses	**15**	202	**193**	303
Other	**790**	909	**2,324**	4,773
	45,825	54,503	**146,324**	183,637
LOSS ON EXTINGUISHMENT OF DEBT	**(74)**	(9,235)	**(74)**	(9,827)
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES, UNCONSOLIDATED JOINT VENTURES AND SALE OF INVESTMENT PROPERTIES	**(711)**	(13,696)	**(10,893)**	(27,562)
(PROVISION) BENEFIT FOR INCOME TAXES FROM OPERATIONS	**180**	(25)	**217**	1,107
INCOME FROM UNCONSOLIDATED JOINT VENTURES	**2,660**	2,179	**7,468**	7,493
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF INVESTMENT PROPERTIES	**2,129**	(11,542)	**(3,208)**	(18,962)
GAIN ON SALE OF INVESTMENT PROPERTIES	**59**	58	**177**	1,875

INCOME (LOSS) FROM CONTINUING OPERATIONS	**2,188**	(11,484)	**(3,031)**	(17,087)
INCOME FROM DISCONTINUED OPERATIONS:				
Income from discontinued operations	**597**	452	**1,353**	3,451
Gain on sale of investment properties	**2,821**	6,572	**2,437**	6,572
	3,418	7,024	**3,790**	10,023
NET INCOME (LOSS)	**5,606**	(4,460)	**759**	(7,064)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**(2,192)**	(696)	**(3,454)**	(1,806)
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	**3,414**	(5,156)	**(2,695)**	(8,870)
DIVIDENDS TO PREFERRED STOCKHOLDERS	**(3,226)**	(3,226)	**(9,680)**	(9,680)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	**$ 188**	$ (8,382)	**$ (12,375)**	$ (18,550)
PER COMMON SHARE INFORMATION BASIC AND DILUTED:				
Loss from continuing operations attributable to controlling interest	**$ (0.03)**	$ (0.15)	**$ (0.16)**	$ (0.28)
Income from discontinued operations	**0.03**	0.07	**0.04**	0.10
Net income (loss) available to common stockholders	**$ 0.00**	$ (0.08)	**$ (0.12)**	$ (0.18)
WEIGHTED AVERAGE SHARES BASIC AND DILUTED	**103,715**	101,893	**103,631**	100,995
DIVIDENDS DECLARED PER COMMON SHARE	**$ 0.045**	$ 0.09	**$ 0.135**	$ 0.27

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
Nine Months Ended September 30, 2011 and 2010
(Unaudited, in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss on Derivative Instruments	Distributions in Excess of Net Income	Stockholders Investment	Nonredeemable Noncontrolling Interests	Total Equity
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
Other comprehensive income									
Total comprehensive income (loss)						(2,695)	(2,695)	3,358	663
Common stock issued pursuant to:									
Director stock grants		82	625				707		707
Stock option exercises		4	30				34		34
Restricted stock grants, net of amounts withheld for income taxes		244	(247)				(3)		(3)
Stock issuance costs			(16)				(16)		(16)
Amortization of stock options and restricted stock, net of forfeitures		(8)	1,691				1,683		1,683
								1,300	1,300

Contributions from noncontrolling interests									
Distributions to noncontrolling interests								(1,712)	(1,712)
Change in fair value of redeemable noncontrolling interests			(526)				(526)		(526)
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**
Balance December 31, 2009	**$ 169,602**	**$ 103,352**	**$ 662,216**	**$ (86,840)**	**$ (9,517)**	**$ (51,402)**	**$ 787,411**	**$ 32,848**	**$ 820,259**
Net income (loss)						(8,870)	(8,870)	1,759	(7,111)
Other comprehensive income					9,423		9,423		9,423
Total comprehensive income (loss)					9,423	(8,870)	553	1,759	2,312
Common stock issued pursuant to:									
Stock dividend, net of issuance costs		2,564	15,489			(18,130)	(77)		(77)
Grants under director stock plan		35	215				250		250
Restricted stock grants		264	(124)				140		140
Amortization of stock options and restricted stock, net of		(10)	1,641				1,631		1,631

forfeitures									
Change in fair value of redeemable noncontrolling interests						1,144	1,144		1,144
Distributions to noncontrolling interests								(1,774)	(1,774)
Cash preferred dividends paid						(9,680)	(9,680)		(9,680)
Cash common dividends paid						(9,091)	(9,091)		(9,091)
Balance September 30, 2010	**$ 169,602**	**$ 106,205**	**$ 679,437**	**$ (86,840)**	**$ (94)**	**$ (96,029)**	**$ 772,281**	**$ 32,833**	**$ 805,114**

See notes to condensed consolidated financial statements.

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COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	**$ 759**	$ (7,064)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Gain on sale of investment properties, net	**(2,614)**	(8,447)
Loss on extinguishment of debt	**74**	592
Impairment loss	**3,508**	586
Losses on abandoned predevelopment projects		1,949
Depreciation and amortization	**40,283**	42,455
Amortization of deferred financing costs	**1,480**	1,495
Stock-based compensation	**1,683**	1,771
Effect of recognizing rental revenues on a straight-line or market basis	**(5,302)**	(3,635)
Income from unconsolidated joint ventures	**(7,468)**	(7,493)
Operating distributions from unconsolidated joint ventures	**7,416**	7,814
Residential lot, outparcel and multi-family cost of sales, net of closing costs paid	**2,547**	26,817
Residential lot acquisition and development expenditures	**(818)**	(1,663)
Changes in other operating assets and liabilities:		
Change in other receivables and other assets	**(1,015)**	1,536
Change in accounts payable and accrued liabilities	**(2,052)**	4,628
Net cash provided by operating activities	**38,481**	61,341
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment property sales	**69,615**	98,694
Property acquisition and development and tenant asset expenditures	**(34,700)**	(26,355)
Investment in unconsolidated joint ventures	**(13,885)**	(8,344)
Distributions from unconsolidated joint ventures	**5,403**	3,654
Payment of debt guarantee of unconsolidated joint venture		(17,250)
Collection of notes receivable	**348**	132
Change in other assets	**(3,210)**	(1,852)
Change in restricted cash	**10,007**	(14,047)
Net cash provided by investing activities	**33,578**	34,632
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility	**98,850**	43,400
Repayment of credit and term facilities	**(84,450)**	(113,800)
Proceeds from other notes payable		27,034

Repayment of notes payable		**(58,401)**		(32,479)
Payment of loan issuance costs		**(442)**		(1,997)
Common stock issued, net of expenses		**18**		173
Cash common dividends paid		**(13,982)**		(9,091)
Cash preferred dividends paid		**(9,680)**		(9,680)
Contributions from noncontrolling interests		**1,300**		2,113
Distributions to noncontrolling interests		**(7,237)**		(1,899)
Net cash used in financing activities		**(74,024)**		(96,226)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,965)**		(253)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**7,599**		9,464
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$**	**5,634**	$	9,211
INTEREST PAID, NET OF AMOUNTS CAPITALIZED	**$**	**19,679**	$	27,063
INCOME TAXES REFUNDED, NET OF AMOUNTS PAID	**$**	**377**	$	3,288
SIGNIFICANT NON-CASH TRANSACTIONS:				
Transfer from other assets to investment in unconsolidated joint ventures	**$**	**6,050**		
Transfer from investment in joint venture to deposits and deferred income			$	12,713
Land received on note receivable default			$	5,030

See notes to condensed consolidated financial statements.

COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011
(UNAUDITED)

1. 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, 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 (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 September 30, 2011 and the results of operations for the three and nine months ended September 30, 2011 and 2010. The results of operations for the three and nine months ended September 30, 2011 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, 2010. 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.

The Company earns fees and incurs expenses related to the management, development and leasing of properties owned both by third parties and by joint ventures in which the Company has an ownership interest. In the first quarter of 2011, the Company began separating on the Statements of Operations the third party management and leasing revenues, including reimbursements, for Cousins Properties Services (CPS), a wholly-owned subsidiary that performs management and leasing services for third-party owned office properties. The Company also began separately stating expenses associated with CPS which were previously included in the General and Administrative and Other expense line items. The amounts remaining in Fee Income on the Statements of Operations relate to management, leasing and development fees, including reimbursements, earned by the Company from certain other third party property owners and from joint ventures. Reimbursed amounts relating to these entities are also shown in a separate expense line item, including reimbursed expenses that were previously presented in Other expense. Unreimbursed expenses related to third party management activities outside of CPS are included in General and Administrative expense. Prior periods have been revised to conform to this new presentation.

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2. NOTES PAYABLE, INTEREST EXPENSE AND COMMITMENTS AND CONTINGENCIES

The following table summarizes the terms and amounts of the Company s notes payable outstanding at September 30, 2011 and December 31, 2010 (in thousands):

Description	Interest Rate	Term/ Amortization Period (Years)	Maturity	September 30, 2011	December 31, 2010
Terminus 100 mortgage note	5.25%	12/30	1/1/23	**$ 138,695**	$ 140,000
The American Cancer Society Center mortgage note (interest only until October 1, 2011)	6.45%	10/30	9/1/17	**136,000**	136,000
Credit Facility, unsecured (see note)	LIBOR + 1.75% to 2.25%	5/N/A	8/29/12	**119,800**	105,400
Meridian Mark Plaza mortgage note	6.00%	10/30	8/1/20	**26,640**	26,892
100/200 North Point Center East mortgage note	5.39%	5/30	6/1/12	**24,568**	24,830
The Points at Waterview mortgage note	5.66%	10/25	1/1/16	**16,252**	16,592
Callaway Gardens	4.13%	N/A	11/18/13	**178**	173
Mahan Village LLC (see note)	3.25%	3/N/A	9/12/14	**1**	
Lakeshore Park Plaza mortgage note (see note)	5.89%	4/25	8/1/12		17,544
600 University Park Place mortgage note (see note)	7.38%	10/30	8/10/11		12,292
333/555 North Point Center East mortgage note (see note)	7.00%	10/25	11/1/11		26,412
Handy Road Associates, LLC (see note)	Prime + 1%, but not < 6%	5/N/A	3/30/2011		3,374
				$ 462,134	$ 509,509

The Company s Credit Facility bears interest at the London Interbank Offered Rate (LIBOR) plus a spread, based on the Company s leverage ratio, as defined in the Credit Facility. At September 30, 2011, the spread over LIBOR under the Credit Facility was 2.0%. The amount that the Company may draw under the Credit Facility is a defined calculation based on the Company s unencumbered assets and other factors. Total borrowing capacity under the Credit Facility was $350 million at September 30, 2011. The Credit Facility had a maturity date of August 29, 2011. On that date, the Company exercised a one-year extension option which changed the maturity date to August 29, 2012, and paid a $438,000 extension fee.

On September 12, 2011, the Company, formed Mahan Village LLC (Mahan), a consolidated entity where a partner has a noncontrolling interest, to construct Mahan Village, a 147,000 square foot retail center in Tallahassee, Florida.

Mahan entered into a construction loan agreement, secured by the project, to provide for up to approximately $15.0 million to fund construction. The debt contains two interest rate options, as defined in the loan agreement, which are based on floating-rate indices plus a spread. The loan matures September 12, 2014, and may be extended for two, one-year periods if certain conditions are met. The Company guarantees up to 25% of the construction loan, which may be eliminated after project completion, based on certain covenants.

On June 1, 2011, the Company prepaid, without penalty, the 333/555 North Point Center East mortgage note. On July 1, 2011, the Company prepaid, without penalty, the Lakeshore Park Plaza mortgage note, and expensed approximately $74,000 of unamortized loan closing costs, which are reflected as Loss on Extinguishment of Debt on the 2011 Statements of Operations. On August 10, 2011, the Company repaid the 600 University Park Place mortgage note in full upon its maturity.

In May 2011, the Company was released of its obligation under the Handy Road Associates, LLC mortgage note through foreclosure.

Fair Value

At September 30, 2011 and December 31, 2010, the estimated fair values of the Company s notes payable were approximately $496.3 million and $521.8 million, respectively, calculated by discounting future cash flows at estimated rates at which similar loans could have been obtained at September 30, 2011 and December 31, 2010. 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.

Interest Rate Swap Agreements

In 2010, the Company had an interest rate swap agreement to manage its interest rate risk associated with its floating-rate, LIBOR-based borrowings. This swap expired in October 2010. Also during 2010, the Company had an interest rate swap agreement to manage interest rate risk under its former $100 million term facility, which swap was terminated in July 2010 when the term facility was paid in full. The changes in fair value of the interest rate swap agreements were recorded in Accumulated Other Comprehensive Loss on the Balance Sheets.

Other Information

For the three and nine months ended September 30, 2011 and 2010, interest expense was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Total interest incurred	**$ 6,838**	$ 8,702	**$ 21,740**	$ 28,769
Interest capitalized	**(237)**		**(237)**	
Total interest expense	**$ 6,601**	$ 8,702	**$ 21,503**	$ 28,769

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.

At September 30, 2011, the Company had outstanding letters of credit and performance bonds of $3.0 million. As a lessor, the Company has $15.6 million in future obligations under leases to fund tenant improvements and other funding commitments as of September 30, 2011. As a lessee, the Company has future obligations under ground and office leases of approximately $16.3 million at September 30, 2011.

Litigation

The Company is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. The Company records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, the Company accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, the Company discloses the nature and estimate of the possible loss of the litigation. The Company does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

3. EARNINGS PER SHARE

Net income (loss) per share-basic is calculated as net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding during the period, including nonvested restricted stock which has nonforfeitable dividend rights. Net income (loss) per share-diluted is calculated as net (income) loss 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 uses the same weighted average share number as in the basic calculation and adds the potential dilution that would occur if stock options (or any other contracts to issue common stock) were exercised and resulted in additional common shares outstanding, calculated using the treasury stock method. The numerator is reduced for the effect of preferred dividends in both the basic and diluted net income (loss) per share calculations. Weighted average shares-basic and diluted for the three and nine months ending September 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
Weighted average shares basic	**103,715**	101,893	**103,631**	100,995
Dilutive potential common shares stock options				
Weighted average shares diluted	**103,715**	101,893	**103,631**	100,995

Stock options are dilutive when the average market price of the Company s stock during the period exceeds the option exercise price. However, in periods where the Company is in a net loss position, the dilutive effect of stock options is not included in the diluted weighted average shares total.

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Anti-dilutive stock options represent stock options which are outstanding but which are not exercisable during the period because the exercise price exceeded the average market value of the Company s stock. These anti-dilutive stock options are not included in the current calculation of dilutive weighted average shares, but could be dilutive in the future. Total weighted average anti-dilutive stock options for each of the periods are as follows (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
Anti-dilutive options	**6,479**	7,061	**6,453**	7,086

4. STOCK-BASED COMPENSATION

The Company has several types of stock-based compensation stock options, restricted stock, long-term incentive awards and restricted stock units (RSUs) which are described in Note 6 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The expense related to certain stock-based compensation awards is fixed. The expense related to other awards fluctuates from period to period dependent, in part, on the Company s stock price.

The Company reversed previously recognized stock-based compensation expense, net of amounts capitalized and income tax effect, if any, of $435,000 in the three months ended September 30, 2011 and recorded net stock-based compensation expense of $1.3 million in the nine months ended September 30, 2011. The three-month 2011 reversal of expense was mainly due to a period-to-period drop in the Company s stock price.

For the three and nine months ended September 30, 2010, the Company recorded net stock-based compensation expense of $549,000 and $2.4 million, respectively.

In the first quarter of 2011, the Company granted 211,729 stock options to key employees and 1,019 stock options to a new director. Also during the first quarter of 2011, the Company made restricted stock grants of 214,206 shares to key employees with a three-year ratable vesting, and 29,411 shares to a key employee, which cliff vest in three years.

RSUs and the long-term incentive awards are accounted for as liability awards under ASC 718, Stock Compensation, and employees are paid cash at vesting based upon the closing prices of the Company s stock or other prescribed cash amounts. During 2011, the Company awarded 401 RSUs to a new director and 56,845 RSUs to employees, both of which cliff vest in three years. Also during 2011, the Company awarded two types of performance-based RSUs to key employees based on the following performance metrics: (1) Total Stockholder Return of the Company, as defined, as compared to the companies in the SNL Financial US Office REIT index as of January 1, 2011 (TSR SNL RSUs), and (2) ratio of cumulative funds from operations per share to targeted cumulative funds from operations per share amount (FFO RSUs). The performance period for both awards is January 1, 2011 to December 31, 2013, and the targeted number of TSR SNL RSUs and FFO RSUs is 99,970 and 64,266, respectively. The ultimate payout of these awards can range from 0% to 200% of the targeted number of units depending on the achievement of the performance metrics described above. Both of these types of RSUs cliff vest on February 15, 2014 and are dependent upon the attainment of required service and performance criteria. The number of RSUs vesting will be determined at that date, and the payout per unit will be equal to the average closing price on each trading day during the 30-day period ending on December 31, 2013. The Company expenses an estimate of the fair value of the TSR SNL RSUs over the vesting period using a quarterly Monte Carlo valuation. The Company expenses the FFO RSUs over the vesting period using the fair market value of the Company s stock at the reporting date multiplied by the anticipated number of units to be paid based on the current estimate of what the ratio is expected to be upon vesting. Dividend equivalents on the RSUs will also be paid based upon the percentage vested. The dividend equivalent payments will equal the total cash dividends that would have been paid during the performance period, and as if the cash dividends had been reinvested in Company stock.

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5. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The Company describes its investments in unconsolidated joint ventures in Note 4 of Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2010. The following table summarizes balance sheet data of the Company s unconsolidated joint ventures as of September 30, 2011 and December 31, 2010 (in thousands). The investments in joint ventures which have negative balances are included in the Deposits and Deferred Income line item on the Balance Sheets.

	Total Assets		Total Debt		Total Equity		Company s Investment	
SUMMARY OF FINANCIAL POSITION:	**2011**	2010	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
CP Venture IV LLC entities	**$ 305,748**	$ 313,603	**$ 36,181**	$ 36,620	**$ 258,768**	$ 267,085	**$ 14,886**	$ 15,364
Charlotte Gateway Village, LLC	**150,730**	154,200	**86,664**	97,030	**60,440**	54,834	**10,341**	10,366
CF Murfreesboro Associates	**126,353**	129,738	**99,834**	103,378	**24,570**	24,263	**14,351**	14,246
Palisades West LLC	**125,089**	129,378			**80,220**	80,767	**41,926**	42,256
CP Venture LLC entities	**103,105**	106,066			**100,494**	104,067	**3,403**	3,779
CL Realty, L.L.C.	**82,357**	86,657	**1,047**	2,663	**79,003**	82,534	**37,954**	39,928
MSREF/Terminus 200 LLC	**80,563**	65,164	**55,426**	46,169	**14,130**	13,956	**2,825**	2,791
Temco Associates, LLC	**60,258**	60,608	**2,824**	2,929	**56,901**	57,475	**22,434**	22,713
Cousins Watkins LLC	**56,665**	57,184	**28,649**	28,850	**27,289**	28,334	**16,059**	14,850
Crawford Long CPI, LLC	**32,105**	34,408	**47,905**	48,701	**(16,712)**	(15,341)	**(7,134)**	(6,431)
EP I LLC	**22,302**		**1**		**18,967**		**17,083**	
Ten Peachtree Place Associates	**21,514**	20,980	**26,342**	26,782	**(5,080)**	(6,263)	**(4,150)**	(4,581)
Wildwood Associates	**21,344**	21,220			**21,250**	21,216	**(1,625)**	(1,642)
TRG Columbus Development Venture, Ltd.	**3,051**	3,574			**1,864**	2,115	**6**	58
Pine Mountain Builders, LLC	**425**	1,559		896	**247**	403	**679**	757
	$ 1,191,609	$ 1,184,339	**$ 384,873**	$ 394,018	**$ 722,351**	$ 715,445	**$ 169,038**	$ 154,454

The following table summarizes statement of operations information of the Company s unconsolidated joint ventures for the nine months ended September 30, 2011 and 2010 (in thousands):

Company s Share of Net

SUMMARY OF OPERATIONS:	Total Revenues 2011	Total Revenues 2010	Net Income (Loss) 2011	Net Income (Loss) 2010	Income (Loss) 2011	Income (Loss) 2010
CP Venture IV LLC entities	**$ 23,133**	$ 23,368	**$ 3,111**	$ 2,950	**$ 811**	$ 839
Charlotte Gateway Village, LLC	**24,324**	23,892	**6,517**	5,788	**882**	882
CF Murfreesboro Associates	**9,903**	10,457	**307**	956	**(44)**	312
Palisades West LLC	**12,256**	10,145	**4,371**	3,406	**2,132**	1,651
CP Venture LLC entities	**14,259**	13,921	**6,132**	6,458	**619**	669
CL Realty, L.L.C.	**5,282**	5,332	**2,481**	2,185	**1,007**	1,661
MSREF/Terminus 200 LLC	**3,875**	928	**(2,912)**	(835)	**(585)**	(167)
Temco Associates, LLC	**405**	2,110	**(782)**	429	**(383)**	214
Cousins Watkins LLC	**3,633**		**47**		**1,799**	
Crawford Long CPI, LLC	**8,924**	8,614	**1,828**	1,432	**913**	715
EP I LLC			**(6)**		**(4)**	
Ten Peachtree Place Associates	**5,413**	5,875	**801**	734	**413**	378
Wildwood Associates			**(126)**	(85)	**(63)**	(42)
TRG Columbus Development Venture, Ltd.	**23**	1,097	**(1)**	403	**48**	327
Pine Mountain Builders, LLC	**2,926**	2,202	**(156)**	129	**(78)**	59
Other		533		55	**1**	(5)
	$ 114,356	$ 108,474	**$ 21,612**	$ 24,005	**$ 7,468**	$ 7,493

On June 28, 2011, EP I LLC (EP I) was formed between the Company, with a 75% ownership interest, and Lion Gables Realty Limited Partnership (Gables), with a 25% ownership interest, for the purpose of developing and operating Emory Point, the first phase of a mixed-use property in Atlanta, Georgia. Profits and losses are allocated to the partners based on their percentage ownership interests, with no preferences or promotes. Upon formation, the Company contributed approximately $8.1 million in cash and $3.1 million in predevelopment assets, and Gables contributed a total of approximately $3.8 million in cash and other assets. The Company s investment in EP I includes cash contributions subsequent to formation and other previously capitalized assets related to the venture, for a total investment balance of $17.1 million at September 30, 2011. The Company anticipates it will make approximately $16.7 million in additional cash contributions to the venture for project development. Upon formation, EP I also entered into a construction loan agreement, secured by the project, to provide for up to $61.1 million to fund construction. The venture may select from two interest rate options, as defined in the loan agreement, which are based on floating-rate indices plus a spread. The loan matures June 28, 2014 and may be extended for two, one-year periods if certain conditions are met. The Company and Gables guarantee up to approximately $11.5 million and $3.8 million of the construction loan, respectively. These guarantees may be eliminated after project completion, based on certain covenants.

6. OTHER ASSETS

Other Assets on the Balance Sheets as of September 30, 2011 and December 31, 2010 included the following (in thousands):

	September 30, 2011	December 31, 2010
Investment in Verde Realty	**$ 5,868**	$ 9,376
FF&E and leasehold improvements, net of accumulated depreciation of $17,399 and $16,117 in 2011 and 2010, respectively	**4,923**	4,673
Predevelopment costs and earnest money	**1,935**	7,039
Lease inducements, net of accumulated amortization of $3,584 and $2,991 in 2011 and 2010, respectively	**12,610**	11,899
Loan closing costs, net of accumulated amortization of $4,043 and $3,109 in 2011 and 2010, respectively	**1,591**	2,703
Prepaid expenses and other assets	**3,067**	2,296
Intangible Assets:		
Goodwill	**5,155**	5,430
Above market leases, net of accumulated amortization of $8,769 and $8,741 in 2011 and 2010, respectively	**499**	526
In-place leases, net of accumulated amortization of $2,545 and $2,492 in 2011 and 2010, respectively	**268**	322
	$ 35,916	$ 44,264

Investment in Verde Realty (Verde   ) relates to a cost method investment in a non-public real estate investment trust. During the first quarter of 2011, the Company determined that there were impairment indicators related to its investment in Verde, including Verde   s withdrawal of its proposed initial public offering. The Company estimated the fair value of Verde by calculating discounted future cash flows using Level 3 inputs, such as market capitalization rates, discount rates and other items. The fair value estimate was less than carrying value, and the Company determined the impairment was other-than-temporary in accordance with accounting standards for investments in unconsolidated entities. Accordingly, the Company recorded an impairment loss of $3.5 million.

Goodwill relates entirely to the Office reportable segment. As office assets are sold, either by the Company or by joint ventures in which the Company has an ownership interest, a portion of goodwill is written off to the cost of each sale. The following is a summary of goodwill activity for the nine months ended September 30, 2011, and there were no changes for the nine month 2010 period (see Note 9 for additional information regarding property sales):

Balance at December 31, 2010	$ 5,430
Allocated to property sale	(275)
Balance at September 30, 2011	$ 5,155

7. NONCONTROLLING INTERESTS

The Company consolidates various entities that are involved in the ownership and/or development of real estate. The partner   s share of an entity, in cases where an entity   s documents do not contain a required redemption clause, is reflected in a separate line item called Nonredeemable Noncontrolling Interests shown within Equity on the Balance Sheets. Correspondingly, the partner   s share of income or loss is recorded in Net Income Attributable to Noncontrolling Interests in the Statements of Operations.

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Other consolidated entities contain provisions requiring the Company to purchase the partners share of the entity at a certain value upon demand or at a future prescribed date. In these situations, the partner s share of the entity is recognized as Redeemable Noncontrolling Interests and is presented between liabilities and equity on the Balance Sheets, with the corresponding share of income or loss in the entity recorded in Net Income Attributable to Noncontrolling Interests in the Statements of Operations. The redemption values are evaluated each period and adjusted to the higher of fair value or the partner s cost basis within the equity section of the Balance Sheet. The Company recognizes these changes in the estimated redemption value as they occur. The following table details the components of Redeemable Noncontrolling Interests in consolidated entities for the nine months ended September 30, 2011 and 2010 (in thousands):

	Nine Months Ended September 30,
	2011