COUSINS PROPERTIES INC
Form 10-Q
October 30, 2012
Table of Contents

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, 2012
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 (State or other jurisdiction of incorporation or organization)	58-0869052 (I.R.S. Employer Identification No.)
191 Peachtree Street, Suite 500, Atlanta, Georgia (Address of principal executive offices)	30303-1740 (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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	Outstanding at October 26, 2012
Common Stock, $1 par value per share	104,119,830 shares

Table of Contents

	Page No.
PART I-FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
CONDENSED CONSOLIDATED BALANCE SHEETS	3
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	4
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY	5
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. Controls and Procedures	28
PART II. OTHER INFORMATION	30
Item 1. Legal Proceedings	30
Item 1A. Risk Factors	30
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 6. Exhibits	31
SIGNATURES	32

Table of Contents

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 intend 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.

Table of Contents

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

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.

3

Table of Contents

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,	
	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

Table of Contents

COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
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

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.

Table of Contents

COUSINS PROPERTIES INCORPORATED AND SUBSIDIARIES
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)

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
SIGNFICANT 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.

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):

Table of Contents

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

Table of Contents

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.

At September 30, 2012, the Company had outstanding letters of credit and performance bonds totaling $2.7 million. As a lessor, the Company has $14.8 million in future obligations under leases to fund tenant improvements as of September 30, 2012. As a lessee, the Company has future obligations under ground and office leases of approximately $15.9 million at September 30, 2012.

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, if any, 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, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average shares — basic	104,193	103,715	104,120	103,631
Dilutive potential common shares — stock options	10	—	5	—

Weighted average shares — diluted	104,203	103,715	104,125	103,631

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.

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

Table of Contents

anti-dilutive stock options for each of the periods are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Anti-dilutive options	4,795	6,479	4,799	6,453

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, 2011. 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 recorded net stock-based compensation expense of $334,000 and an expense reversal of $435,000 for the three months ended September 30, 2012 and 2011, respectively, and recorded net stock-based compensation of $2.5 million and $1.3 million for the nine months ended September 30, 2012 and 2011, respectively.

The Company made restricted stock grants in 2012 of 261,973 shares to key employees, which vest ratably over a three-year period. In addition, 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 US REIT Office index ("TSR SNL RSUs"), and (2) the ratio of cumulative funds from operations per share to targeted cumulative funds from operations per share ("FFO RSUs") as defined in the plan. The performance period for both awards is January 1, 2012 to December 31, 2014, and the targeted units awarded of TSR SNL RSUs and FFO RSUs is 162,783 and 101,918, 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, 2015 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, 2014. The TSR SNL RSUs are expensed using a quarterly Monte Carlo valuation over the vesting period. The FFO RSUs are expensed 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.

Also in 2012, the Company made a special grant of restricted stock of 208,333 shares to its Chief Executive Officer, which vests ratably over a three-year period. Additionally, the Company issued performance-based RSUs to the Chief Executive Officer. The targeted number of units awarded is 281,532. The payout of these awards can range from 0% to 150% of the targeted number of units depending on the Total Stockholder Return of the Company, as defined on an absolute basis, compared to the total stockholder return for the companies in the SNL US REIT Office Index. The performance period of the awards is from January 1, 2012 to December 31, 2016 with interim performance measurement dates at each of the third, fourth and fifth anniversaries. To the extent that the Company has attained the defined performance goals at the end each of these periods, one-third of the units may be credited after each of the third and fourth anniversaries, with the balance credited at the end of the fifth anniversary, and to be awarded subject to continuous employment on the fifth anniversary. This award is expensed using a quarterly Monte Carlo valuation over the vesting period. The number of RSUs vesting under this award will be determined at the fifth anniversary date of the grant, and the cash payout per unit will be equal to the average closing price on each trading day during the 30-day period ending with such date.

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, 2011. The following table summarizes balance sheet data of the Company's unconsolidated joint ventures as of September 30, 2012 and December 31, 2011 (in thousands):

Table of Contents

SUMMARY OF FINANCIAL POSITION:	Total Assets 2012	Total Assets 2011	Total Debt 2012	Total Debt 2011	Total Equity 2012	Total Equity 2011	Company's Investment 2012	Company's Investment 2011
Palisades West LLC	$120,035	$124,588	$—	$—	$79,025	$81,635	$41,259	$42,616
EP I LLC	74,387	33,343	33,525	1	32,999	29,137	28,175	24,827
Cousins Watkins LLC	54,888	56,096	28,331	28,571	25,647	26,893	16,439	16,321
CF Murfreesboro Associates	122,685	125,668	95,586	98,922	25,125	24,810	14,509	14,421
CP Venture IV Holdings LLC	290,149	301,352	35,572	36,031	246,690	255,881	14,092	14,694
Charlotte Gateway Village, LLC	144,152	146,854	72,046	83,097	68,705	62,423	10,308	10,333
Temco Associates, LLC	8,404	23,653	—	2,787	8,056	20,646	4,006	7,363
MSREF/ Cousins Terminus 200 LLC	95,641	92,421	74,117	68,562	19,927	17,967	3,984	3,593
CL Realty, L.L.C.	7,274	44,481	—	1,056	6,927	42,932	3,464	22,413
CP Venture LLC entities	100,258	102,178	—	—	98,509	99,942	3,192	3,343
Pine Mountain Builders, LLC	225	429	—	—	41	153	209	632
Ten Peachtree Place Associates	790	22,523	—	26,192	758	(4,145)	116	(3,679) *
TRG Columbus Development Venture, Ltd.	2,389	2,450	—	—	1,847	1,857	29	31
Terminus 200 LLC	789	789	—	—	789	789	—	—
Wildwood Associates	21,281	21,224	—	—	21,185	21,221	(1,658) *	(1,639) *
Crawford Long - CPI, LLC	33,153	32,739	46,787	47,631	(15,729)	(16,137)	(6,698) *	(6,873) *
	$1,076,500	$1,130,788	$385,964	$392,850	$620,501	$666,004	$131,426	$148,396

*Negative balances are included in Deferred Income on the Balance Sheets.

The following table summarizes statement of operations information of the Company's unconsolidated joint ventures for the nine months ended September 30, 2012 and 2011 (in thousands):

SUMMARY OF OPERATIONS:	Total Revenues 2012	Total Revenues 2011	Net Income (Loss) 2012	Net Income (Loss) 2011	Company's Share of Income (Loss) 2012	Company's Share of Income (Loss) 2011
Palisades West LLC	$12,566	$12,256	$4,350	$4,371	$2,083	$2,132
EP I LLC	306	—	(53)	(6)	(39)	(4)
Cousins Watkins LLC	4,365	3,633	24	47	1,810	1,799
CF Murfreesboro Associates	9,920	9,903	316	307	(46)	(44)
CP Venture IV Holdings LLC	22,558	23,133	2,814	3,111	778	811
	24,821	24,324	7,189	6,517	882	882

Charlotte Gateway Village, LLC						
Temco Associates, LLC	560	405	(141)	(782)	(275)	(383)
MSREF/ Cousins Terminus 200 LLC	9,242	3,875	(727)	(2,912)	(146)	(584)
CL Realty, L.L.C.	2,294	5,282	840	2,481	105	1,007
CP Venture LLC entities	14,535	14,259	7,280	6,132	752	619
Pine Mountain Builders, LLC	1,260	2,926	(111)	(156)	(423)	(78)
Ten Peachtree Place Associates	2,488	5,413	20,938	801	7,852	413
TRG Columbus Development Venture, Ltd.	9	23	(10)	(1)	(3)	48
Wildwood Associates	—	—	(127)	(126)	(63)	(63)
Crawford Long - CPI, LLC	8,697	8,924	1,908	1,828	950	913
	$113,621	$114,356	$44,490	$21,612	$14,217	$7,468

In March 2012, CL Realty, L.L.C. and Temco Associates, LLC sold their interests in 18 residential development projects and related residential land to Forestar Realty Inc., the Company's partner in both ventures. The Company's share of the proceeds from the sale was $23.5 million.

In the second quarter of 2012, the Ten Peachtree Place Associates joint venture sold Ten Peachtree Place, a 260,000 square foot office building in Atlanta, Georgia, for $45.3 million. The Company recognized a gain on this transaction through income from unconsolidated entities of $7.5 million.

In the third quarter of 2012, Dimensional Fund Advisors, the Company's partner in Palisades West LLC, notified the Company that it will exercise its option to purchase the Company's interests in the joint venture. This transaction is expected to close in the fourth quarter of 2012.

6. OTHER ASSETS

Table of Contents

Other Assets on the Balance Sheets as of September 30, 2012 and December 31, 2011 included the following (in thousands):

	September 30, 2012	December 31, 2011
Lease inducements, net of amortization of of $4,544 and $3,696 in 2012 and 2011, respectively	$11,541	$12,219
Investment in Verde Realty	5,380	5,868
FF&E and leasehold improvements, net of accumulated depreciation of $18,504 and $17,814 in 2012 and 2011, respectively	4,398	4,736
Loan closing costs, net of accumulated amortization of $2,421 and $4,026 in 2012 and 2011, respectively	3,976	1,435
Prepaid expenses and other assets	2,932	2,168
Predevelopment costs and earnest money	1,958	581
Intangible Assets:		
In-place leases, net of accumulated amortization of $5,099 and $2,833 in 2012 and 2011, respectively	22,767	16,144
Goodwill	5,039	5,155
Above market leases, net of accumulated amortization of $9,369 and $8,845 in 2012 and 2011, respectively	7,157	4,414
	$65,148	$52,720

Investment in Verde Realty relates to a cost method investment in a privately-held real estate investment trust. In the third quarter of 2012, the Company reduced its investment in Verde Realty by $488,000 as a result of a merger of Verde into another real estate company. The Company expects to receive cash proceeds upon closing of this merger in the fourth quarter of 2012 of $5.4 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, goodwill is reduced. The following is a summary of goodwill activity for the nine months ended September 30, 2012 and September 30, 2011 (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Beginning balance	$5,155	$5,430
Allocated to property sales	(116)	(275)
Ending balance	$5,039	$5,155

7. NONCONTROLLING INTERESTS

The Company consolidates various joint ventures that are involved in the ownership and/or development of real estate. The following table details the components of Redeemable Noncontrolling Interests in consolidated entities for the nine months ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Beginning Balance	$2,763	$14,289
Net income (loss) attributable to redeemable noncontrolling interests	(2,002)	96
Distributions to redeemable noncontrolling interests	(858)	(5,525)
Other	97	—
Change in fair value of redeemable noncontrolling interests	—	526
Ending Balance	$—	$9,386

The following reconciles the net income or loss attributable to nonredeemable noncontrolling interests as shown in the Statements of Equity to the net income or loss attributable to noncontrolling interests as shown in the Statements of

Operations, which includes both redeemable and nonredeemable interests, for the nine months ended September 30, 2012 and 2011 (in thousands):

Table of Contents

	Nine Months Ended September 30,	
	2012	2011
Net income attributable to nonredeemable noncontrolling interests	$1,743	$3,358
Net income (loss) attributable to redeemable noncontrolling interests	(2,002)	96
Net income (loss)	$(259)	$3,454

8. REPORTABLE SEGMENTS

The Company has five reportable segments: Office, Retail, Land, Third Party Management and Leasing, and Other. In the third quarter of 2012, the Company sold its third party management and leasing business. See Note 9 for detailed information. These reportable segments represent an aggregation of operating segments reported to the Chief Operating Decision Maker based on similar economic characteristics that include the type of product and the nature of service. Each segment includes both consolidated operations and joint ventures. The Office and Retail segments show the results for that product type. For these two segments, net operating income is calculated as rental property revenues less rental property operating expenses. The Land segment includes results of operations for certain land holdings and single-family residential communities that are sold as developed lots to homebuilders. Fee income and related expenses for the third party-owned office and retail properties which are managed or leased by the Company are included in the Third Party Management and Leasing segment. In prior years, the Company had an additional segment, the For-Sale Multi-Family Residential Unit segment, which included results of operations for the development and sale of multi-family real estate projects. The Company has sold substantially all of its multi-family residential units, and this line of business is no longer considered to be a separate reportable segment. The 2011 results for this segment are included in Other. The Other segment also includes:

- fee income for third party owned development properties and joint venture properties for which the Company performs management, development and leasing services;
- compensation for corporate employees, other than those in the Third Party Management and Leasing segment;
- general corporate overhead costs, interest expense for consolidated entities (as financing decisions are made at the corporate level, with the exception of joint venture interest expense, which is included in joint venture results in the respective segment);
- income attributable to noncontrolling interests;
- income taxes;
- depreciation;
- preferred dividends; and
- operations of the Industrial properties, which were sold in 2011.

Company management evaluates the performance of its reportable segments in part based on funds from operations available to common stockholders (“FFO”). FFO is a supplemental operating performance measure used in the real estate industry. The Company calculated FFO using the National Association of Real Estate Investment Trusts' (“NAREIT”) definition of FFO, which is net income (loss) available to common stockholders (computed in accordance with GAAP), excluding extraordinary items, cumulative effect of change in accounting principle and gains or losses on sale of or impairment losses on depreciable property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures to reflect FFO on the same basis.

FFO is used by industry analysts, investors and the Company as a supplemental measure of a REIT's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of a REIT's operating performance that excludes historical cost depreciation, among other items, from GAAP net income. Management believes the use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Company management evaluates operating performance in part based on FFO. Additionally, the Company uses FFO, along with other

measures, as a performance measure for incentive compensation to its officers and other key employees.
Segment net income, the balance of the Company's investment in joint ventures and the amount of capital expenditures are not presented in the following tables. Management does not utilize these measures when analyzing its segments or when making resource allocation decisions, and therefore this information is not provided. FFO is reconciled to net income (loss) on a total Company basis (in thousands):

13

Table of Contents

Three Months Ended September 30, 2012	Office	Retail	Land	Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$17,242	$4,497	$—	$—	$—	$21,739
Fee income, net of reimbursed expenses	—	—	—	2,311	6,108	8,419
Residential lot and other sales, net of cost of sales	—	—	378	—	—	378
Other income	2,975	267	—	—	86	3,328
Third party management and leasing expenses	—	—	—	(1,782)	—	(1,782)
General and administrative expenses	—	—	—	—	(5,255)	(5,255)
Interest expense	—	—	—	—	(5,793)	(5,793)
Depreciation and amortization of non-real estate assets	—	—	—	—	(256)	(256)
Impairment losses	—	—	—	—	(488)	(488)
Separation expenses	—	—	—	—	(574)	(574)
Other expenses	—	(8)	—	—	(2,257)	(2,265)
Funds from operations from unconsolidated joint ventures	2,731	2,150	(137)	—	—	4,744
Gain on sale of third party management and leasing business	—	—	—	7,384	—	7,384
Funds from operations attributable to noncontrolling interests	—	—	—	—	(608)	(608)
Provision for income taxes from operations	—	—	—	—	(60)	(60)
Preferred stock dividends	—	—	—	—	(3,226)	(3,226)
Funds from operations available to common stockholders	$22,948	$6,906	$241	$7,913	$(12,323)	25,685
Real estate depreciation and amortization, including Company's share of joint ventures						(16,361)
Gain on sale of depreciable investment properties						120
Net income available to common stockholders						$9,444

Table of Contents

Three Months Ended September 30, 2011	Office	Retail	Land	Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$15,442	$5,026	$—	$—	$907	$21,375
Fee income, net of reimbursed expenses	—	—	14	3,300	2,029	5,343
Residential lot and other sales, net of cost of sales	—	—	7	—	—	7
Other income	368	—	—	—	80	448
Third party management and leasing expenses	—	—	—	(2,143)	—	(2,143)
General and administrative expenses	—	—	—	—	(4,295)	(4,295)
Interest expense	—	—	—	—	(6,601)	(6,601)
Loss on extinguishment of debt	—	—	—	—	(74)	(74)
Depreciation and amortization of non-real estate assets	—	—	—	—	(388)	(388)
Separation expenses	—	—	—	—	(15)	(15)
Other expenses	—	—	—	—	(790)	(790)
Funds from operations from unconsolidated joint ventures	2,766	2,110	225	—	(2)	5,099
Funds from operations attributable to noncontrolling interests	—	—	—	—	(611)	(611)
Benefit for income taxes from operations	—	—	—	—	180	180
Preferred stock dividends	—	—	—	—	(3,226)	(3,226)
Funds from operations available to common stockholders	$18,576	$7,136	$246	$1,157	$(12,806)	14,309
Real estate depreciation and amortization, including Company's share of joint ventures						(15,420)
Noncontrolling interest related to gain on sale of depreciated investment properties						(1,581)
Gain on sale of depreciable investment properties, net						2,880
Net income available to common stockholders						$188

15

Table of Contents

Nine Months Ended September 30, 2012	Office	Retail	Land	Third Party Management and Leasing	Other	Total
Net operating income, including discontinued operations	$50,920	$15,297	$—	$—	$1	$66,218
Fee income, net of reimbursed expenses	—	—	—	8,396	9,018	17,414
Residential lot and other sales, net of cost of sales	—	—	882	—	—	882
Other income	2,975	472	—	—	1,612	5,059
Third party management and leasing expenses	—	—	—	(6,034)	—	(6,034)
General and administrative expenses	—	—	—	—	(17,523)	(17,523)
Interest expense	—	—	—	—	(17,936)	(17,936)
Depreciation and amortization of non-real estate assets	—	—	—	—	(843)	(843)
Impairment losses	—	—	—	—	(488)	(488)
Loss on extinguishment of debt	—	—	—	—	(94)	(94)
Separation expenses	—	—	—	—	(866)	(866)
Other expenses	—	—	—	—	(3,543)	(3,543)
Funds from operations from unconsolidated joint ventures	8,440	6,436	(594)	—	(3)	14,279
Gain on sale of third party management and leasing business	—	—	—	7,384	—	7,384
Funds from operations attributable to noncontrolling interests	—	—	—	—	(1,784)	(1,784)
Provision for income taxes from operations	—	—	—	—	(120)	(120)
Preferred stock dividends	—	—	—	—	(9,680)	(9,680)
Funds from operations available to common stockholders	$62,335	$22,205	$288	$9,746	$(42,249)	52,325
Real estate depreciation and amortization, including Company's share of joint ventures						(47,936)
Impairment loss on depreciable investment property						(12,233)
Noncontrolling interest related to gain on sale of depreciated investment properties						2,043
Gain on sale of depreciated investment properties						8,534
Net income available to common stockholders						$2,733

Table of Contents

Nine Months Ended September 30, 2011	Office	Retail	Land	Third Party Management and Leasing	Other	Total
Net operating property income, including discontinued operations	$46,152	$15,607	$—	$—	$2,868	$64,627
Fee income, net of reimbursed expenses	—	—	105	7,536	5,875	13,516
Residential lot and other sales, net of cost of sales	—	50	57	—	2,177	2,284
Other income	1,185	34	—	—	386	1,605
Third party management and leasing expenses	—	—	—	(5,859)	—	(5,859)
General and administrative expenses	—	—	—	—	(17,828)	(17,828)
Interest expense	—	—	—	—	(21,503)	(21,503)
Loss on extinguishment of debt	—	—	—	—	(74)	(74)
Impairment loss	—	—	—	—	(3,508)	(3,508)
Depreciation and amortization of non-real estate assets	—	—	—	—	(1,323)	(1,323)
Separation expenses	—	—	—	—	(193)	(193)
Other expenses	—	—	—	—	(2,324)	(2,324)
Funds from operations from unconsolidated joint ventures	8,215	6,476	504	—	48	15,243
Funds from operations attributable to noncontrolling interests	—	—	—	—	(1,873)	(1,873)
Benefit for income taxes from operations	—	—	—	—	217	217
Preferred stock dividends	—	—	—	—	(9,680)	(9,680)
Funds from operations available to common stockholders	$55,552	$22,167	$666	$1,677	$(46,735)	33,327
Real estate depreciation and amortization, including Company's share of joint ventures						(46,735)
Noncontrolling interest related to gain on sale of depreciated investment properties						(1,581)
Gain on sale of depreciable investment properties, net						2,614
Net loss available to common stockholders						$(12,375)

When reviewing the results of operations for the Company, management analyzes the following revenue and income items net of their related costs:

- Rental property operations, including discontinued;
- Reimbursements of third-party and joint venture personnel costs;
- Residential lots, tracts and outparcel sales;
- Multi-family unit sales; and
- Gains or losses on sales of investment properties.

These amounts are shown in the segment tables above in the same “net” manner as shown to management. Certain adjustments are required to reconcile the above segment information to the Company's consolidated revenues, including adjusting for gains on sales of investment properties, as these gains are not presented within revenues in the Statements of Operations. The following table reconciles information presented in the tables above to the Company's consolidated revenues (in thousands):

17

Table of Contents

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Net operating property income, including discontinued operations	$21,739	$21,375	$66,218	$64,627
Plus rental property operating expenses	14,400	11,775	39,595	33,658
Fee income	8,419	5,343	17,414	13,516
Third party management and leasing expense reimbursements	(2,311)	(3,300)	(8,397)	(7,536)
Reimbursed expenses	1,235	1,866	3,968	4,749
Residential and other sales, net of cost of sales, including gain on sale of undepreciated investment properties	378	7	882	2,284
Plus residential lot and other cost of sales	354	158	1,334	2,790
Net operating income from discontinued operations not included in revenues	(3,547)	(6,128)	(12,967)	(19,483)
Other income	3,328	448	5,059	1,605
Other income - discontinued operations	(267)	(1)	(472)	(115)
Total consolidated revenues	$43,728	$31,543	$112,634	$96,095

9. ACQUISITIONS, DISPOSITIONS, AND OTHER INFORMATION

Purchase of Investment Property

In the third quarter of 2012, the Company purchased 2100 Ross Avenue, a 844,000 square foot Class-A office building in the Arts District submarket of Dallas, Texas, and paid cash of $59.2 million. In addition, the Company assumed $4.2 million in liabilities associated with the building including tenant improvement liabilities, property tax liabilities, and deferred revenue. In accordance with applicable accounting rules, the Company included these assumed liabilities in the purchase price of the asset. The Company allocated the purchase price among the assets and liabilities acquired based on their respective fair values. The the three months ended September 30, 2012, the Company incurred approximately $369,000 in acquisition costs in conjunction with the purchase, which were recorded in Other Expense in the Statement of Operations. The following table summarizes the fair value of the assets and liabilities acquired (in thousands):

Tangible assets:	
Land and improvements	$5,987
Building	36,705
Tenant improvements	9,034
Tangible assets	51,726
Intangible assets:	
Above-market leases	3,267
In-place leases	8,888
Total intangible assets	12,155
Intangible Liabilities:	
Below-market leases	(436)
Total net assets acquired	$63,445

Discontinued Operations

Accounting rules require that the gains and losses from the disposition of certain real estate assets and related historical results of operations of certain sold or held-for-sale assets be included in a separate section, Discontinued

Operations, in the Statements of Operations for all periods presented. In addition, assets and liabilities of held-for-sale properties, as defined, are required to be separately categorized on the Balance Sheet in the period that those properties are deemed held for sale.

In October 2012, the Company sold Cosmopolitan Center for $7.0 million. The Avenue Webb Gin and The Avenue Forsyth are under contract and are anticipated to close in the fourth quarter of 2012. In accordance with accounting guidance, these three

Table of Contents

properties were categorized as Operating Properties Held for Sale on the accompanying Balance Sheet at September 30, 2012. The operating results of sold and held-for-sale assets are presented in Discontinued Operations on the accompanying Statement of Operations for each of the periods presented.

In September 2012, the Company sold its third party management and leasing business to Cushman & Wakefield. Under the terms of the agreement, the Company has the potential to receive up to $15.4 million in gross sales proceeds, of which approximately 63.5% was received at closing. The final purchase price is subject to working capital adjustments, an earn out based on the performance of the contributed management and leasing contracts, and the potential contribution of additional management and/or leasing contracts, all of which the Company expects to be substantially resolved by October 1, 2013. The Company recognized a gain on this transaction of $7.4 million and will recognize additional gains if and when additional consideration is earned. As a result of this sale, the operations of the Company's third party management and leasing business are presented as Discontinued Operations on the accompanying Statements of Operations for each of the periods presented.

In the second quarter of 2012, the Company sold The Avenue Collierville ("Collierville"), a 511,000 square foot retail center in suburban Memphis, Tennessee, for $55.0 million and Galleria 75, a 111,000 square foot office building in Atlanta, Georgia, for $9.2 million. In the first quarter of 2011, the Company sold Jefferson Mill Business Park Building A, a 459,000 square foot industrial property in suburban Atlanta, Georgia, for $22.0 million. These transactions met the criteria for discontinued operations. Accordingly, the operating results are included in Discontinued Operations on the accompanying Statements of Operations for each of the periods presented.

The components of Discontinued Operations and the gains and losses on sales for the three and nine months ended September 30, 2012 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income from discontinued operations:				
Rental property revenues	$5,055	$10,519	$18,969	$31,720
Third party management and leasing revenues	4,789	5,398	15,528	14,091
Other income	267	1	472	115
Rental property expenses	(1,508)	(4,391)	(6,001)	(12,237)
Third party management and leasing expenses	(4,260)	(4,241)	(13,167)	(12,414)
Depreciation and amortization	(2,575)	(4,650)	(8,622)	(14,721)
Impairment loss	—	—	(12,233)	—
Other expense	(8)	(17)	(39)	(51)
Income (loss) from discontinued operations	$1,760	$2,619	$(5,093)	$6,503
Gain (loss) on sale of discontinued operations:				
Galleria 75	$—	$—	$547	$—
One Georgia Center	—	2,821	—	2,821
Jefferson Mill Business Park Building A	—	—	—	(394)
Third party management and leasing business	7,384	—	7,384	—
Other	60	—	273	10
Gain on sale of discontinued operations	$7,444	$2,821	$8,204	$2,437

Impairment Loss

In connection with the disposition of Collierville, the Company recorded an impairment loss of $12.2 million in the first quarter of 2012. This impairment is considered to be a Level 3 determination under the fair value rules, as unobservable market inputs were used. Collierville was owned by a consolidated joint venture, and the noncontrolling partner's share of the impairment loss was $2.0 million, which was recorded in Net Loss (Income) Attributable to Noncontrolling Interests in the 2012 Statement of Operations.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview:

Cousins Properties Incorporated (“Cousins”), a Georgia corporation, is a self-administered and self-managed real estate investment trust (“REIT”). Cousins Real Estate Corporation (“CREC”) is a taxable entity wholly-owned by and consolidated with Cousins. CREC owns, develops, and manages its own real estate portfolio and performs certain real estate related services for other parties.

Cousins, CREC and their subsidiaries (collectively, the “Company”) develop, acquire, manage and own primarily office and retail real estate projects in Georgia, Texas and North Carolina. As of September 30, 2012, the Company's portfolio of real estate assets consisted of interests in 8.2 million square feet of office space, 4.4 million square feet of retail space, and two projects under development. The Company also had interests in both commercial and residential land tracts, as well as single-family lots in residential projects.

During the third quarter of 2012, the Company sold its third party management and leasing business, thereby effectively exiting this line of business. This sale is consistent with the Company's strategy of simplification and is expected to allow management to focus on its core operations. This sale, combined with additional staffing reductions made in the third quarter, will have the effect of reducing total personnel from 320 at the beginning of 2012 to 173 by the end of 2012.

In August 2012, the Company acquired 2100 Ross Avenue, a 844,000 s