

HIGHWOODS PROPERTIES INC  
Form 10-Q  
July 28, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

HIGHWOODS PROPERTIES, INC.  
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	001-13100 (Commission File Number)	56-1871668 (I.R.S. Employer Identification Number)
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HIGHWOODS REALTY LIMITED PARTNERSHIP  
(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	000-21731 (Commission File Number)	56-1869557 (I.R.S. Employer Identification Number)
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3100 Smoketree Court, Suite 600  
Raleigh, NC 27604  
(Address of principal executive offices) (Zip Code)

919-872-4924  
(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Highwoods Properties, Inc. Yes  No  Highwoods Realty Limited Partnership Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Highwoods Properties, Inc. Yes  No  Highwoods Realty Limited Partnership Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Securities Exchange Act.

Highwoods Properties, Inc.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Highwoods Realty Limited Partnership

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Highwoods Properties, Inc. Yes  No  Highwoods Realty Limited Partnership Yes  No

The Company had 71,614,945 shares of Common Stock outstanding as of July 22, 2010.

HIGHWOODS PROPERTIES, INC.  
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2010

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units,” the Operating Partnership’s preferred partnership interests as “Preferred Units” and in-service properties (excluding rental residential units) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

Certain information contained herein is presented as of July 22, 2010, the latest practicable date for financial information prior to the filing of this Quarterly Report.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

(Unaudited and in thousands, except share and per share amounts)

	June 30, 2010	December 31, 2009
<b>Assets:</b>		
Real estate assets, at cost:		
Land	\$ 337,656	\$ 350,537
Buildings and tenant improvements	2,856,415	2,880,632
Land held for development	104,148	104,148
	3,298,219	3,335,317
Less-accumulated depreciation	(798,814)	(781,073)
Net real estate assets	2,499,405	2,554,244
For-sale residential condominiums	10,126	12,933
Real estate and other assets, net, held for sale	1,229	5,031
Cash and cash equivalents	35,843	23,699
Restricted cash	6,241	6,841
Accounts receivable, net of allowance of \$3,326 and \$2,810, respectively	20,440	21,069
Mortgages and notes receivable, net of allowance of \$771 and \$698, respectively	20,144	3,143
Accrued straight-line rents receivable, net of allowance of \$2,405 and \$2,443, respectively	87,027	82,600
Investment in unconsolidated affiliates	62,633	66,077
Deferred financing and leasing costs, net of accumulated amortization of \$53,539 and \$52,129, respectively	72,350	73,517
Prepaid expenses and other assets	39,674	37,947
<b>Total Assets</b>	<b>\$ 2,855,112</b>	<b>\$ 2,887,101</b>
<b>Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:</b>		
Mortgages and notes payable	\$ 1,463,727	\$ 1,469,155
Accounts payable, accrued expenses and other liabilities	105,318	117,328
Financing obligations	33,603	37,706
<b>Total Liabilities</b>	<b>1,602,648</b>	<b>1,624,189</b>
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	105,409	129,769
<b>Equity:</b>		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares		
(liquidation preference \$1,000 per share), 29,092 shares issued and outstanding		
	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares		
(liquidation preference \$25 per share), 2,100,000 shares issued and outstanding		
	52,500	52,500

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Common Stock, \$.01 par value, 200,000,000 authorized shares; 71,614,985 and 71,285,303 shares issued and outstanding, respectively	716	713
Additional paid-in capital	1,779,524	1,751,398
Distributions in excess of net income available for common stockholders	(716,790)	(701,932)
Accumulated other comprehensive loss	(3,275)	(3,811)
Total Stockholders' Equity	1,141,767	1,127,960
Noncontrolling interests in consolidated affiliates	5,288	5,183
Total Equity	1,147,055	1,133,143
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$ 2,855,112	\$ 2,887,101

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Rental and other revenues	\$ 114,339	\$ 111,914	\$ 229,393	\$ 224,275
Operating expenses:				
Rental property and other expenses	38,324	38,901	80,039	79,179
Depreciation and amortization	33,353	32,514	66,082	65,223
General and administrative	6,980	9,486	15,487	17,801
Total operating expenses	78,657	80,901	161,608	162,203
Interest expense:				
Contractual	21,705	19,945	43,507	40,524
Amortization of deferred financing costs	835	689	1,670	1,351
Financing obligations	394	710	870	1,445
	22,934	21,344	46,047	43,320
Other income:				
Interest and other income	966	2,284	2,666	3,291
Gain on debt extinguishment	—	630	—	630
	966	2,914	2,666	3,921
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	13,714	12,583	24,404	22,673
Gains on disposition of property	17	194	36	213
Gains on disposition of for-sale residential condominiums	163	289	353	636
Gains on disposition of investment in unconsolidated affiliates	25,330	—	25,330	—
Equity in earnings of unconsolidated affiliates	888	1,862	1,683	3,162
Income from continuing operations	40,112	14,928	51,806	26,684
Discontinued operations:				
Income from discontinued operations	197	1,203	411	2,574
Net gains/(losses) on disposition of discontinued operations	(260)	20,943	(86)	21,016
	(63)	22,146	325	23,590
Net income	40,049	37,074	52,131	50,274
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,933)	(2,054)	(2,453)	(2,748)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(215)	(116)	(429)	(134)
Dividends on Preferred Stock	(1,677)	(1,677)	(3,354)	(3,354)
Net income available for common stockholders	\$ 36,224	\$ 33,227	\$ 45,895	\$ 44,038
Earnings per Common Share - basic:				



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Income from continuing operations available for common stockholders	\$	0.51	\$	0.19	\$	0.64	\$	0.34
Income from discontinued operations available for common stockholders		—		0.31		—		0.34
Net income available for common stockholders	\$	0.51	\$	0.50	\$	0.64	\$	0.68
Weighted average Common Shares outstanding - basic		71,601		66,122		71,508		64,883
Earnings per Common Share - diluted:								
Income from continuing operations available for common stockholders	\$	0.50	\$	0.19	\$	0.64	\$	0.34
Income from discontinued operations available for common stockholders		—		0.31		—		0.34
Net income available for common stockholders	\$	0.50	\$	0.50	\$	0.64	\$	0.68
Weighted average Common Shares outstanding - diluted		75,607		70,234		75,504		68,978
Dividends declared per Common Share	\$	0.425	\$	0.425	\$	0.85	\$	0.85
Net income available for common stockholders:								
Income from continuing operations available for common stockholders	\$	36,284	\$	12,370	\$	45,587	\$	21,824
Income/(loss) from discontinued operations available for common stockholders		(60)		20,857		308		22,214
Net income available for common stockholders	\$	36,224	\$	33,227	\$	45,895	\$	44,038

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Equity

Six Months Ended June 30, 2010 and 2009

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Series A Cumulative Redeemable Preferred Common Stock	Series B Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Loss	Non- Controlling Interests in Consolidated Common Stockholders	Distributions in Excess of Net Income Available for Common Stockholders	Total	
Balance at December 31, 2009	71,285,303	\$ 713	\$ 29,092	\$ 52,500	\$ 1,751,398	\$ (3,811)	\$ 5,183	\$ (701,932)	\$ 1,133,143
Issuances of Common Stock, net	71,568	1	—	—	1,061	—	—	—	1,062
Conversion of Common Units to Common Stock	93,971	1	—	—	2,957	—	—	—	2,958
Dividends on Common Stock	—	—	—	—	—	—	—	—	—