

HIGHWOODS PROPERTIES INC
Form 10-Q
May 09, 2008

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 March 31, 2008

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

56-1871668
(I.R.S. Employer
Identification Number)

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3100 Smoketree Court, Suite 600, Raleigh, N.C.

(Address of principal executive office)

27604

(Zip Code)

(919) 872-4924

(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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act.

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). Yes No

The Company had 57,309,347 shares of common stock outstanding as of March 31, 2008.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to (1) Highwoods Properties, Inc. as the Company, (2) Highwoods Realty Limited Partnership as the Operating Partnership, (3) the Company's common stock as Common Stock, (4) the Company's preferred stock as Preferred Stock, (5) the Operating Partnership's common partnership interests as Common Units, (6) the Operating Partnership's preferred partnership interests as Preferred Units and (7) 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.

The information furnished in the accompanying Consolidated Financial Statements reflects all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors included herein and in our 2007 Annual Report on Form 10-K.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS**

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

	March 31, 2008	December 31, 2007
Assets:		
Real estate assets, at cost:		
Land	\$ 360,836	\$ 356,199
Buildings and tenant improvements	2,743,659	2,701,004
Development in process	107,129	101,661
Land held for development	96,839	103,365
	3,308,463	3,262,229
Less-accumulated depreciation	(664,944	) (647,685
Net real estate assets	2,643,519	2,614,544
Real estate and other assets, net, held for sale	18,299	18,309
Cash and cash equivalents	6,595	3,140
Restricted cash	13,862	15,896
Accounts receivable, net of allowance of \$1,038 and \$935, respectively	20,782	23,521
Notes receivable, net of allowance of \$157 and \$68, respectively	3,036	5,226
Accrued straight-line rents receivable, net of allowance of \$667 and \$440, respectively	76,715	74,313
Investment in unconsolidated affiliates	58,054	58,046
Deferred financing and leasing costs, net of accumulated amortization	72,693	72,007
Prepaid expenses and other assets	44,263	41,953
Total Assets	\$ 2,957,818	\$ 2,926,955
Liabilities, Minority Interest and Stockholders' Equity:		
Mortgages and notes payable	\$ 1,703,238	\$ 1,641,987
Accounts payable, accrued expenses and other liabilities	142,139	157,766
Financing obligations	35,296	35,071
Total Liabilities	1,880,673	1,834,824
Commitments and Contingencies (see Note 12)		
Minority interest	67,596	70,098
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 82,937 shares issued and outstanding at both March 31, 2008 and December 31, 2007	82,937	82,937
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 2,100,000 shares issued and outstanding at both March 31, 2008 and December 31, 2007	52,500	52,500
Common stock, \$.01 par value, 200,000,000 authorized shares; 57,309,347 and 57,167,193 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	573	572
Additional paid-in capital	1,447,958	1,448,055
Distributions in excess of net earnings	(572,591	) (561,093
Accumulated other comprehensive loss	(1,828	) (938
Total Stockholders' Equity	1,009,549	1,022,033
Total Liabilities, Minority Interest and Stockholders' Equity	\$ 2,957,818	\$ 2,926,955

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2008	2007
Rental and other revenues	\$ 114,780	\$ 106,108
Operating expenses:		
Rental property and other expenses	39,128	37,936
Depreciation and amortization	31,041	28,965
General and administrative	9,711	10,911
Total operating expenses	79,880	77,812
Interest expenses:		
Contractual	23,463	22,689
Amortization of deferred financing costs	638	566
Financing obligations	740	992
	24,841	24,247
Other income:		
Interest and other income	803	1,514
	803	1,514
Income before disposition of property, insurance gain, minority interest and equity in earnings of unconsolidated affiliates	10,862	5,563
Gains on disposition of property, net		16,743
Gain from property insurance settlement		4,128
Minority interest	(837)	(2,580)
Equity in earnings of unconsolidated affiliates	1,989	9,717
Income from continuing operations	12,014	33,571
Discontinued operations:		
Income from discontinued operations, net of minority interest	146	725
Gains on sales of discontinued operations, net of minority interest	3,483	18,262
	3,629	18,987
Net income	15,643	52,558
Dividends on preferred stock	(2,838)	(4,113)
Net income available for common stockholders	\$ 12,805	\$ 48,445
Net income per common share - basic:		
Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.07	0.34
Net income	\$ 0.23	\$ 0.86
Weighted average common shares outstanding - basic	56,729	56,040
Net income per common share - diluted:		
Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.06	0.33
Net income	\$ 0.22	\$ 0.85
Weighted average common shares outstanding - diluted	61,050	61,900
Dividends declared per common share	\$ 0.425	\$ 0.425

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****For the Three Months Ended March 31, 2008**

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accum- ulated Other Compre- hensive Loss	Distri- butions in Excess of Net Earnings	Total	
Balance at December 31, 2007	57,167,193	\$ 572	\$ 82,937	\$ 52,500	\$ 1,448,055	\$ (938	)\$ (561,093	)\$ 1,022,033	
Issuance of Common Stock, net	(24,225	)			(686	)		(686)
Common Stock dividends							(24,303	) (24,303)
Preferred Stock dividends							(2,838	) (2,838)
Adjustment to minority interest of unitholders in the Operating Partnership					(1,637	)		(1,637)
Issuance of restricted stock, net	166,379								
Amortization of restricted stock and stock options		1			2,226			2,227	
Comprehensive income:									
Net income							15,643	15,643	
Other comprehensive income/(loss)						(890	)	(890)
Total comprehensive income								14,753	
Balance at March 31, 2008	57,309,347	\$ 573	\$ 82,937	\$ 52,500	\$ 1,447,958	\$ (1,828	)\$ (572,591	)\$ 1,009,549	

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	Three Months Ended	
	March 31,	
	2008	2007
Operating activities:		
Net income	\$ 15,643	\$ 52,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	27,358	26,139
Amortization of lease commissions	3,751	3,607
Amortization of lease incentives	222	222
Amortization of restricted stock and stock options	2,227	1,132
Amortization of deferred financing costs	638	566
Amortization of accumulated other comprehensive loss	80	142
Net gains on disposition of property	(3,726))