

HIGHWOODS PROPERTIES INC  
Form 10-Q  
April 28, 2015

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 March 31, 2015

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	001-13100	56-1871668
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

North Carolina	000-21731	56-1869557
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

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.

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.

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

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 94,052,036 shares of Common Stock outstanding as of April 20, 2015.

---

## EXPLANATORY NOTE

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” and the Operating Partnership’s preferred partnership interests as “Preferred Units.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The Company conducts its activities through the Operating Partnership and is its sole general partner. 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 April 20, 2015, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended March 31, 2015 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;

- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;

- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and

- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;

- the following Notes to Consolidated Financial Statements:

- Note 8 - Noncontrolling Interests; and

- Note 13 - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

- Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.



HIGHWOODS PROPERTIES, INC.  
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2015

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	<u>3</u>
<u>HIGHWOODS PROPERTIES, INC.:</u>	
<u>Consolidated Balance Sheets at March 31, 2015 and December 31, 2014</u>	<u>3</u>
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>5</u>
<u>Consolidated Statements of Equity for the Three Months Ended March 31, 2015 and 2014</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>7</u>
<u>HIGHWOODS REALTY LIMITED PARTNERSHIP:</u>	
<u>Consolidated Balance Sheets at March 31, 2015 and December 31, 2014</u>	<u>9</u>
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>10</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>11</u>
<u>Consolidated Statements of Capital for the Three Months Ended March 31, 2015 and 2014</u>	<u>12</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>13</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>15</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>30</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	<u>30</u>
<u>Executive Summary</u>	<u>31</u>
<u>Results of Operations</u>	<u>34</u>
<u>Liquidity and Capital Resources</u>	<u>35</u>
<u>Critical Accounting Estimates</u>	<u>37</u>
<u>Non-GAAP Information</u>	<u>37</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>40</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>40</u>
PART II - OTHER INFORMATION	
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>41</u>
ITEM 6. <u>EXHIBITS</u>	<u>41</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

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

	March 31, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	\$400,850	\$ 388,807
Buildings and tenant improvements	3,941,463	3,840,379
Development in process	133,688	205,971
Land held for development	75,888	79,355
	4,551,889	4,514,512
Less-accumulated depreciation	(1,056,028 )	(1,033,106 )
Net real estate assets	3,495,861	3,481,406
Real estate and other assets, net, held for sale	2,980	1,038
Cash and cash equivalents	11,381	8,832
Restricted cash	11,852	14,595
Accounts receivable, net of allowance of \$1,647 and \$1,314, respectively	28,385	48,557
Mortgages and notes receivable, net of allowance of \$468 and \$275, respectively	14,137	13,116
Accrued straight-line rents receivable, net of allowance of \$530 and \$600, respectively	147,597	142,037
Investments in and advances to unconsolidated affiliates	27,056	27,071
Deferred financing and leasing costs, net of accumulated amortization of \$115,342 and \$112,804, respectively	224,270	228,768
Prepaid expenses and other assets, net of accumulated amortization of \$14,770 and \$14,259, respectively	46,297	39,489
Total Assets	\$4,009,816	\$ 4,004,909
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$2,089,226	\$ 2,071,389
Accounts payable, accrued expenses and other liabilities	203,001	237,633
Financing obligations	23,519	23,519
Total Liabilities	2,315,746	2,332,541
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	133,226	130,048
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares; 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 29,050 and 29,060 shares issued and outstanding, respectively	29,050	29,060
Common Stock, \$.01 par value, 200,000,000 authorized shares; 94,047,118 and 92,907,310 shares issued and outstanding, respectively	940	929
Additional paid-in capital	2,504,867	2,464,275
Distributions in excess of net income available for common stockholders	(986,388 )	(966,141 )
Accumulated other comprehensive loss	(5,709 )	(3,912 )
Total Stockholders' Equity	1,542,760	1,524,211
Noncontrolling interests in consolidated affiliates	18,084	18,109

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Total Equity	1,560,844	1,542,320
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,009,816	\$ 4,004,909

See accompanying notes to consolidated financial statements.

3

---

Table of Contents

## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Rental and other revenues	\$157,310	\$148,453
Operating expenses:		
Rental property and other expenses	57,513	56,390
Depreciation and amortization	50,308	48,165
General and administrative	11,437	10,714
Total operating expenses	119,258	115,269
Interest expense:		
Contractual	20,442	20,750
Amortization of deferred financing costs	800	652
Financing obligations	181	(40 )
	21,423	21,362
Other income:		
Interest and other income	1,238	1,399
	1,238	1,399
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	17,867	