

CHEMUNG FINANCIAL CORP
Form 8-K
June 02, 2016

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): June 2, 2016

CHEMUNG FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation)	0-13888 (Commission File Number)	16-1237038 (IRS Employer Identification No.)
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One Chemung Canal Plaza, Elmira, NY (Address of principal executive offices)	14901 (Zip Code)
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(607) 737-3711
(Registrant's telephone number, including area
code)

Not Applicable
(Former name or former address, if changed since
last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.16e-4(c))

ITEM 8.01 OTHER EVENTS

Chemung Financial Corporation (the “Corporation”) received approval from the State of Nevada for the creation of a new captive insurance subsidiary, named Chemung Risk Management, Inc. (the “Subsidiary”), on May 31, 2016. The purpose of the Subsidiary is to insure gaps in commercial coverage and uninsured exposures in the Corporation’s current insurance coverages and allow the Corporation to strengthen its overall risk management program. The Corporation will recognize approximately \$170 thousand in one-time expenses associated with the feasibility and implementation of the Subsidiary during the first half of 2016 and will have annual costs of approximately \$90 thousand associated with the on-going operations of the Subsidiary. Beginning in fiscal year 2017, the Corporation expects to receive a potential net benefit of approximately \$370 thousand associated with the insurance premium exclusion, for income tax purposes, provided to captive insurance companies. This net benefit will be reduced by claims submitted to the Subsidiary.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

CHEMUNG FINANCIAL
CORPORATION

June 2, 2016 By: /s/ Karl F. Krebs
Karl F. Krebs
Chief Financial Officer and Treasurer

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The Company describes its investments in unconsolidated joint ventures in Note 6 to its Annual Report on Form 10-K for the year ended December 31, 2006. The following table summarizes balance sheet financial data of unconsolidated joint ventures in which the Company had ownership interests as of March 31, 2007 and December 31, 2006 (\$ in thousands):

	Total Assets		Total Debt		Total Equity		Company's Investment	
	2007	2006	2007	2006	2007	2006	2007	2006
CP Venture IV LLC entities	\$ 350,398	\$ 352,798	\$ 39,064	\$ 39,364	\$ 290,972	\$ 294,169	\$ 20,238	\$ 18,610
CP Venture LLC entities	120,883	118,861			119,498	117,716	5,178	5,157
Charlotte Gateway Village, LLC	177,701	178,784	142,021	144,654	33,969	32,912	10,493	10,502
TRG Columbus Development Venture, Ltd.	218,589	154,281	90,369	76,861	62,594	55,724	30,221	27,619
CL Realty, L.L.C.	125,163	117,820	3,931	5,357	111,504	108,316	68,653	66,979
Temco Associates	63,727	66,001	3,607	3,746	58,744	60,786	30,270	31,223
Crawford Long CPI, LLC	42,394	42,524	52,197	52,404	(11,501)	(10,664)	(4,473)	(4,037)
CF Murfreesboro Associates	67,098	54,356	36,877	21,428	21,698	21,698	12,127	11,975
Palisades West, LLC	25,507	26,987			25,123	25,072	12,475	11,959
Ten Peachtree Place Associates	26,703	27,312	28,733	28,849	(2,503)	(1,796)	(2,760)	(2,411)
Wildwood Associates	21,799	21,816			21,681	21,730	(1,409)	(1,385)
CSC Associates, L.P.	1,886	2,998			413	1,410	206	706
Pine Mountain Builders, LLC	3,991	3,999	915	614	2,393	2,347	1,219	1,191
Handy Road Associates, LLC	5,267	5,349	3,204	3,204	2,057	2,133	2,170	2,209
CPI/FSP I, L.P.	3,689	3,307			3,189	3,190	1,620	1,621
	\$ 1,254,795	\$ 1,177,193	\$ 400,918	\$ 376,481	\$ 739,831	\$ 734,743	\$ 186,228	\$ 181,918

The following table summarizes income statement financial data of unconsolidated joint ventures in which the Company had ownership interests, for the three months ended March 31, 2007 and 2006 (\$ in thousands):

	Total Revenues		Net Income (Loss)		Company's Share of Net Income (Loss)	
	2007	2006	2007	2006	2007	2006
CP Venture IV LLC entities	\$ 8,130	\$	\$ 1,257	\$	\$ 311	\$
CP Venture LLC entities	5,341	5,538	3,011	1,908	313	218
Charlotte Gateway Village, LLC	7,643	7,666	1,361	1,187	294	294
TRG Columbus Development Venture, Ltd.	23,471	15,583	7,945	4,692	2,424	1,797
CL Realty, L.L.C.	3,799	9,460	1,988	5,071	277	2,203
Temco Associates	1,094	25,512	(42)	8,124	(28)	3,822
Crawford Long CPI, LLC	2,638	2,585	360	263	168	119
Palisades West, LLC	88		50		25	
Ten Peachtree Place Associates	1,594	1,761	43	201	25	103
Wildwood Associates		1	(48)	(56)	(24)	(28)
CSC Associates, L.P.	(15)	10,455	(50)	5,474	(25)	2,719
Pine Mountain Builders, LLC	939	2,894	46	322	(5)	125
Handy Road Associates, LLC		93	(75)	(77)	(43)	
CPI/FSP I, L.P.			(1)		(1)	(159)
Other		170	2	3,125	(3)	910
	\$ 54,722	\$ 81,718	\$ 15,847	\$ 30,234	\$ 3,708	\$ 12,123

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At March 31, 2007 and December 31, 2006, Other Assets included the following (\$ in thousands):

	2007	2006
Investment in Verde Group, L.L.C.	\$ 9,376	\$ 9,376
FF&E and leasehold improvements, net of accumulated depreciation of \$16,953 and \$16,429 as of March 31, 2007 and December 31, 2006, respectively	9,679	8,665
Predevelopment costs and earnest money	16,122	22,924
Prepaid expenses and other assets	7,846	6,531
Intangible Assets:		
Goodwill	5,602	5,602
Above market leases, net of accumulated amortization of \$2,671 and \$1,447 as of March 31, 2007 and December 31, 2006, respectively	8,183	9,407
In-place leases, net of accumulated amortization of \$920 and \$472 as of March 31, 2007 and December 31, 2006, respectively	2,141	2,589
	\$ 58,949	\$ 65,094

Goodwill relates entirely to the Office/Multi-Family reportable segment. Other intangible assets relate primarily to the 2006 acquisitions of the interests in 191 Peachtree Tower and Cosmopolitan Center. In conjunction with these acquisitions, the Company also acquired intangible liabilities for below market leases and an above market ground lease, which are recorded within Accounts Payable and Accrued Liabilities on the Condensed Consolidated Balance Sheets. Above and below market leases are amortized into rental revenues over the remaining lease terms. In-place leases are amortized into depreciation and amortization expense also over remaining lease terms. Aggregate amortization expense related to intangible assets and liabilities was \$1.6 million for the three months ended March 31, 2007. Aggregate amortization of these intangible assets and liabilities is anticipated to be as follows (\$ in thousands):

	Below Market Leases	Above Market Leases	In Place Leases	Total
Remainder of 2007	\$ (134)	\$ 3,532	\$ 820	\$4,218
2008	(161)	4,142	865	4,846
2009	(138)	185	108	155
2010	(136)	185	83	132
2011	(120)	124	64	68
Thereafter	(808)	15	201	(592)
	\$(1,497)	\$ 8,183	\$2,141	\$8,827

9. REPORTABLE SEGMENTS

The Company has four reportable segments: Office/Multi-Family, Retail, Land, and Industrial. The Office/Multi-family division develops, leases and manages owned and third-party owned office buildings and invests in and/or develops for-sale multi-family real estate products. The Retail and Industrial divisions develop, lease and manage retail and industrial centers, respectively. The Land Division owns various tracts of land that are held for investment or future development. The Land Division also develops single-family residential communities that are parceled into lots and sold to various homebuilders or sold as undeveloped tracts of land. The Company's reportable segments are categorized based on the type of product the division provides. The divisions are managed separately

because each product they provide has separate and distinct development issues, leasing and/or sales strategies and management issues. The divisions also match the manner in which the chief operating decision maker reviews results and information and allocates resources. The

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unallocated and other category in the following table includes general corporate overhead costs not specific to any segment, interest expense, as financing decisions are not generally made at the reportable segment level, income taxes and preferred dividends.

Company management evaluates the performance of its reportable segments 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 available to common stockholders (computed in accordance with GAAP), excluding extraordinary items, cumulative effect of change in accounting principle and gains or losses from sales of 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 an equity 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 that 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. In addition to Company management evaluating the operating performance of its reportable segments based on FFO results, management uses FFO and FFO per share, along with other measures, to assess performance in connection with evaluating and granting incentive compensation to its officers and employees.

The following tables summarize the operations of the Company s reportable segments for the three months ended March 31, 2007 and 2006.

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Three Months Ended March 31, 2007 (in thousands)	Office/Multi-	Retail	Land	Industrial	Unallocated	Total
	Family	Division	Division	Division	and Other	
Rental property revenues continuing	\$ 17,744	\$ 6,307	\$	\$ 386	\$	\$ 24,437
Rental property revenues discontinued	1	103				104
Residential lot and outparcel sales			1,426			1,426
Leasing and management fees	6,416	1,012	61		3	7,492
Development fees	284	240	50			574
Other income continuing	3,426	137	6	41	69	3,679
Other income discontinued		35				35
Total revenues from consolidated entities	27,871	7,834	1,543	427	72	37,747
Rental property operating expenses continuing	(8,308)	(1,864)		(50)		(10,222)
Rental property operating expenses discontinued		(4)				(4)
Residential lot and outparcel cost of sales			(1,208)			(1,208)
Third party leasing and management direct operating expenses	(4,289)	(77)				(4,366)
General and administrative expenses	(938)	(1,426)	(833)	(119)	(7,008)	(10,324)
Other expenses continuing	(145)	(74)	(92)	(65)	(485)	(861)
Total costs and expenses	(13,680)	(3,445)	(2,133)	(234)	(7,493)	(26,985)
Benefit for income taxes from operations					1,027	1,027
Minority interest in income from consolidated subsidiaries	(304)	(591)		33		(862)
Funds from operations from unconsolidated joint ventures						
Unconsolidated joint venture revenues less operating expenses	1,748	1,105				2,853
Residential lot and outparcel sales, net			406			406
Multi-family residential sales, net	2,289					2,289
Other joint venture income, net	139	1	(141)		(714)	(715)
Total funds from operations from unconsolidated joint ventures	4,176	1,106	265		(714)	4,833
Gain on sale of undepreciated investment properties		4,376				4,376
Gain on sale of undepreciated investment properties discontinued (100%)		8,164				8,164
Preferred stock dividends					(3,813)	(3,813)
Funds from operations available to common stockholders	18,063	17,444	(325)	226	(10,921)	24,487

Real estate depreciation and amortization						
Continuing	(6,637)	(2,198)		(184)		(9,019)
Unconsolidated joint ventures	(642)	(410)	(29)			(1,081)
Total real estate depreciation and amortization	(7,279)	(2,608)	(29)	(184)		(10,100)
Gain on sale of depreciated investment properties, net of applicable income tax provision						
Continuing	62	2				64
Unconsolidated joint ventures	(43)	(1)				(44)
Total gain on sale of depreciated investment properties, net of applicable income tax provision	19	1				20
Net income (loss) available to common stockholders	\$ 10,803	\$ 14,837	\$ (354)	\$ 42	\$(10,921)	\$ 14,407
Total Assets	\$659,100	\$351,504	\$133,905	\$90,834	\$ 35,218	\$1,270,561
Investment in unconsolidated joint ventures	\$ 46,374	\$ 37,542	\$102,312	\$	\$	\$ 186,228

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	Office/Multi- Family Division	Retail Division	Land Division	Industrial Division	Unallocated and Other	Total
Three Months Ended March 31, 2006						
Rental property revenues continuing	\$ 14,142	\$ 8,617	\$	\$	\$	\$ 22,759
Rental property revenues discontinued	3,163	2,522				5,685
Multi-family residential unit sales	6,579					6,579
Residential lot and outparcel sales			4,505			4,505
Leasing and management fees	6,300	259	68		2	6,629
Development fees	519	150	1,083			1,752
Other income continuing	2,205	414	19	1	23	2,662
Other income discontinued		21				21
Total revenues from consolidated entities	32,908	11,983	5,675	1	25	50,592
Rental property operating expenses continuing	(5,850)	(2,716)				(8,566)
Rental property operating expenses discontinued	(1,566)	(896)				(2,462)
Multi-family residential unit cost of sales	(5,358)					(5,358)
Residential lot and outparcel cost of sales			(3,203)			(3,203)
Third party leasing and management direct operating expenses	(3,716)					(3,716)
General and administrative expenses	(2,060)	(718)	(738)	36	(6,380)	(9,860)
Other expenses continuing	(65)	(333)	(100)	(3)	(4,388)	(4,889)
Total expenses from consolidated entities	(18,615)	(4,663)	(4,041)	33	(10,768)	(38,054)
Provision for income taxes from operations					(2,370)	(2,370)
Minority interest in income from consolidated subsidiaries	(977)	(101)				(1,078)
Funds from operations from unconsolidated joint ventures						
Unconsolidated joint venture revenues less operating expenses	5,561	475				6,036
Residential lot and outparcel sales, net			6,253			6,253
Multi-family residential sales, net	1,745					1,745
Other joint venture income, net	52	90	(351)		(696)	(905)
Total funds from operations from unconsolidated joint ventures	7,358	565	5,902		(696)	13,129
			740			740

Gain on sale of undepreciated investment properties						
Preferred stock dividends					(3,813)	(3,813)

Funds from operations available to common stockholders	20,674	7,784	8,276	34	(17,622)	19,146
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Real estate depreciation and amortization						
Continuing	(3,974)	(3,385)				(7,359)
Discontinued	(1,399)	(1,244)				(2,643)
Unconsolidated joint ventures	(1,682)	(173)	(203)			(2,058)

Total real estate depreciation and amortization	(7,055)	(4,802)	(203)			(12,060)
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Gain on sale of depreciated investment properties, net of applicable income tax provision						
Continuing	10	55				65
Discontinued	125	66				191
Unconsolidated joint ventures	7	1,046				1,053

Total gain on sale of depreciated investment properties, net of applicable income tax provision	142	1,167				1,309
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Net income available to common stockholders	\$ 13,761	\$ 4,149	\$ 8,073	\$ 34	\$ (17,622)	\$ 8,395
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Total Assets	\$ 625,513	\$ 454,291	\$ 121,897	\$ 37,200	\$ 29,249	\$ 1,268,150
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Investment in unconsolidated joint ventures	\$ 100,568	\$ 5,797	\$ 101,940	\$	\$	\$ 208,305
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Reconciliation to Consolidated Revenues	Three Months Ended March 31,	
	2007	2006
Total revenues from consolidated entities for segment reporting	\$ 37,747	\$ 50,592
Less: rental property revenues from discontinued operations	(139)	(5,706)
Total consolidated revenues	\$ 37,608	\$ 44,886

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

Overview:

Cousins Properties Incorporated (the Company) is a real estate development company with experience in the development, leasing, financing and management of office, retail and industrial properties in addition to residential land development. In addition, the Company has experience with the development and sale of multi-family products. As of March 31, 2007, the Company held interests directly or through joint ventures in 24 office properties totaling 7.2 million square feet, 14 retail properties totaling 4.7 million square feet, four industrial properties totaling 2.0 million square feet and 715 developed residential land lots held for sale. These interests include several office, retail, and industrial projects under development or redevelopment totaling 5.6 million square feet. The Company also had an interest in two condominium projects under development which contain 671 units. The Company had 24 residential communities under development directly or through joint ventures in which approximately 10,960 lots remain to be developed and/or sold. In addition, the Company owns directly or through joint ventures approximately 9,000 acres of land.

The Company's strategy is to produce stockholder returns by creating value through the development of high quality, well-located office, retail, industrial, multi-family and residential properties. The Company has developed substantially all of the real estate assets it owns. A key element in the Company's strategy is to actively manage its portfolio of investment properties and, at the appropriate times, to engage in timely and strategic dispositions, either by sale or through contributions to ventures in which the Company retains an ownership interest. These timely transactions seek to maximize the value of the assets the Company has created, generate capital for additional development properties and return a portion of the value created to stockholders.

Significant events during the three months ended March 31, 2007 included the following:

Sold five ground leased outparcels at the Company's North Point property for an aggregate price of \$10.1 million and a gain of \$8.2 million.

Sold 41 acres of land adjacent to The Avenue Carriage Crossing for \$11.7 million generating a gain of \$4.4 million.

Purchased 109 acres of land in Forsyth County, Georgia for \$36.2 million and commenced construction of the first phase of The Avenue Forsyth, a 527,000 square foot lifestyle center in north metropolitan Atlanta, Georgia.

Results of Operations:

Rental Property Revenues. Rental property revenues increased approximately \$1.7 million in the three month 2007 period compared to the same 2006 period. Rental property revenues of the office portfolio increased approximately \$3.6 million as a result of the following:

Increase of \$4.3 million related to the purchase of 191 Peachtree Tower;

Decrease of \$1.1 million related to 3100 Windy Hill Road, as the lease for the sole tenant in the building expired in the fourth quarter of 2006. The Company is actively attempting to re-lease this space, although there can be no guarantee of lease-up in the near term.

Rental property revenues from the retail portfolio decreased approximately \$2.3 million as a result of the following:

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Decrease of \$6.1 million related to the contribution of five retail properties to a venture with an affiliate of The Prudential Insurance Company of America (PREI see Note 5 in the Annual Report on Form 10-K for the year ended December 31, 2006). Upon venture formation, the Company began accounting for the properties on the equity method;

Increase of \$717,000 related to the lease up of The Avenue Carriage Crossing;

Increase of \$1.4 million related to the first quarter 2006 opening of San Jose MarketCenter;

Increase of \$1.7 million related to the August 2006 opening of The Avenue Webb Gin.

Rental property revenues from the Industrial Division increased approximately \$386,000 in the three month 2007 period compared to the same 2006 period, mainly due to the opening in the third quarter 2006 of King Mill Distribution Park Building 3A.

Rental Property Operating Expenses. Rental property operating expenses increased approximately \$1.7 million in the three month 2007 period compared to the same 2006 period. The aforementioned openings of The Avenue Carriage Crossing, San Jose MarketCenter and The Avenue Webb Gin and the purchase of the interests in the 191 Peachtree Tower office building contributed \$2.9 million to the increase. The aforementioned formation of the venture with PREI and the commencement of equity method accounting for the five retail centers contributed partially offset the 2007 increase in rental property operating expenses by approximately \$1.7 million.

Multi-family Residential Unit Sales and Cost of Sales. Multi-family residential unit sales decreased approximately \$6.6 million in the three month 2007 period compared to the same 2006 period, and cost of sales decreased approximately \$5.4 million between the same periods. These decreases relate to the 905 Juniper multi-family residential project, for which all units closed in 2006.

Residential Lot and Outparcel Sales and Cost of Sales. Residential lot and outparcel sales decreased approximately \$3.1 million in three month 2007 period compared to the same 2006 period, and residential lot and outparcel cost of sales decreased approximately \$2.0 million for the same period. Lot sales at the Company's consolidated residential projects decreased from 58 lots in the first quarter of 2006 to 25 lots in the first quarter of 2007. The mix of sales at the various developments between years also affects the level of revenues and profits from residential lots. Consistent with current market trends, the Company anticipates a continued decline in residential lot sales for 2007 when compared to that of 2006, both at consolidated projects and at developments owned by Temco Associates and CL Realty, L.L.C., entities in which the Company is a joint venture partner.

Interest and Other. Interest and other income increased approximately \$1.0 million in the three month 2007 period compared to the same 2006 period. The Company recognized \$3.6 million in lease termination fees in 2007, mainly from a lease termination at Inforum, compared to lease termination fees of \$2.7 million in 2006.

General and Administrative Expenses. General and administrative expenses increased approximately \$1.1 million in the three month 2007 period compared to the same 2006 period. Salaries and related benefits, including stock-based compensation, increased approximately \$531,000, mainly due to an increase in the number of restricted stock units granted.

Depreciation and Amortization. Depreciation and amortization increased approximately \$1.4 million in the three month 2007 period compared to the same 2006 period as a result of the following:

Increase of approximately \$3.8 million from the aforementioned openings of The Avenue Carriage Crossing, San Jose MarketCenter, The Avenue Webb Gin, King Mill Distribution Park Building 3A and the acquisition of the ownership interests in 191 Peachtree Tower;

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Decrease of approximately \$2.0 million for the five retail properties contributed to the aforementioned venture with PREI.

Interest Expense. Interest expense decreased approximately \$3.6 million in the three month 2007 period compared to the same 2006 period as a result of the following:

Decrease of \$2.4 million related to the repayment of the mortgage note related to Bank of America Plaza, which was sold in 2006;

Decrease of \$782,000 related to the assumption of the mortgage note on The Avenue East Cobb by the aforementioned venture with PREI;

Increase of \$954,000 related to the construction facility for Terminus 100, which the Company entered into in March 2006;

Decrease of \$1.1 million related to an increase in capitalized interest due to higher amounts expended on projects under development.

Benefit (Provision) for Income Taxes from Operations. The provision for income taxes from operations decreased approximately \$3.4 million from the three month 2006 period to a benefit for income taxes for the three month 2007 period. Operations at Cousins Real Estate Corporation (CREC), the Company's taxable REIT subsidiary, decreased to a loss before taxes between the first quarter 2006 and the first quarter 2007, mainly due to decreases in residential lot sales, both at consolidated projects and from the Temco Associates (Temco) and CL Realty, L.L.C. (CL Realty) residential joint ventures (discussed in the income from unconsolidated joint ventures section below). Multi-family residential unit sales at the 905 Juniper project also decreased in 2007, as previously mentioned. The decrease in income at CREC was partially offset by an increase in income from the TRG Columbus Development Venture, Ltd. (TRG), which is developing a multi-family residential project in Miami, Florida.

Income from Unconsolidated Joint Ventures. Income from unconsolidated joint ventures decreased approximately \$8.4 million in the three month 2007 period compared to the same 2006 period, due to the following. (All amounts discussed reflect the Company's share of joint venture income based on its ownership interest in each joint venture.):

Income from CSC Associates, L.P. decreased approximately \$2.7 million in the three month 2007 period due to the sale of Bank of America Plaza in September 2006, the single asset of this venture.

Income from TRG increased approximately \$627,000 in the three month 2007 period. TRG recognizes income on its condominium units sold using the percentage of completion method of accounting. Income fluctuates from quarter to quarter depending on the pace of construction and the number of units for which revenues are being recognized. There have been recent reports about softening in the Miami, Florida condominium market. While this softening market could affect this project, 99% of the residential units are under non-cancelable contracts, and some of the units have been re-sold in the secondary market for prices in excess of the original contract amount.

Income from Temco decreased approximately \$3.8 million in the three month 2007 period compared to the same 2006 period due to the sale of 855 acres of land at the venture's Seven Hills project in the first quarter of 2006, which generated a gain to the Company of \$3.2 million, and to a decrease in the number of lots sold from 194 in the first quarter of 2006 to 8 in the same 2007 period.

Income from CL Realty decreased approximately \$1.9 million in the three month 2007 period compared to the same 2006 period due to a decrease in lots sold from 238 in the first quarter of 2006 to 63 in the same 2007 period.

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Income from Brad Cous Golf Venture, Ltd. decreased approximately \$1.1 million in the three month 2007 period compared to the same 2006 period due to the sale of and resultant gain from the Shops of World Golf Village, an 80,000 square foot retail project which this venture owned.

Gain on Sale of Investment Properties. The 2007 gain consisted primarily of the sale of undeveloped land near the Company's Avenue Carriage Crossing project. The 2006 gain consisted primarily of the sale of undeveloped land at the North Point/Westside project.

Discontinued Operations. Income from discontinued operations (including gain on sale of investment properties) increased approximately \$7.5 million in the three month 2007 period compared to the same 2006 period. The increase is mainly the result of the gain recognized upon the 2007 sale of the five sites under ground lease at the Company's North Point project, compared to no sales in the 2006 period.

Discussion of New Accounting Pronouncements. In November 2006, FASB ratified the consensus in EITF No. 06-08, *Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums* (EITF 06-08), which provides guidance for determining the adequacy of a buyer's continuing investment and the appropriate profit recognition in the sale of individual units in a condominium project. EITF 06-08 requires that companies evaluate the adequacy of a buyer's continuing investment in recognizing condominium revenues on the percentage of completion method by applying paragraph 12 of Statement No. 66 to the level and timing of deposits received on contracts for condominium sales. This rule is effective for the Company on January 1, 2008, although earlier adoption is permitted. The Company does not anticipate the impact of adopting EITF 06-08 will have a material effect on its financial position or results of operations for current projects, but anticipates that the accounting under EITF 06-08 will have a material effect on the timing of revenue recognition for any future multi-family residential projects the Company undertakes.

Funds From Operations. The following table shows Funds From Operations Available to Common Stockholders (FFO) and the related reconciliation to net income available to common stockholders for the Company. The Company calculated FFO in accordance with the National Association of Real Estate Investment Trusts (NAREIT) definition, which is net income available to common stockholders (computed in accordance with accounting principles generally accepted in the United States (GAAP)), excluding extraordinary items, cumulative effect of change in accounting principle and gains or losses from sales of 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 and investors as a supplemental measure of an equity 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 REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. 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 the operating performance of its reportable segments and of its divisions based in part on FFO. Additionally, the Company uses FFO and FFO per share, along with other measures, to assess performance in connection with evaluating and granting incentive compensation to its officers

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and employees. The reconciliation of net income available to common stockholders to funds from operations is as follows:

	Three Months Ended March 31,	
	2007	2006
Net Income Available to Common Stockholders	\$ 14,407	\$ 8,395
Depreciation and amortization:		
Consolidated properties	9,520	8,156
Discontinued properties		2,667
Share of unconsolidated joint ventures	1,081	2,062
Depreciation of furniture, fixtures and equipment and amortization of specifically identifiable intangible assets:		
Consolidated properties	(501)	(821)
Share of unconsolidated joint ventures		(4)
(Gain) loss on sale of investment properties, net of applicable income tax provision:		
Consolidated	(4,440)	(805)
Discontinued properties	(8,164)	(191)
Share of unconsolidated joint ventures	44	(1,053)
Gain on sale of undepreciated investment properties	12,540	740
 Funds From Operations Available to Common Stockholders	 \$ 24,487	 \$ 19,146

Liquidity and Capital Resources:***Financial Condition.***

Summary. The Company had a significant number of projects in its development pipeline at March 31, 2007 and does not expect the number of projects or the amounts invested in development projects to decrease in the near term. The Company also has one existing office building included in operating properties on its Condensed Consolidated Balance Sheet that will require capital to effect leasing and redevelopment activities. The Company also has a large amount of undeveloped land, both consolidated and at unconsolidated joint ventures, which may progress into development projects in the remainder of 2007. Additionally, the Company and its joint ventures sold a significant number of operating properties in the last several years, some of which have been replaced by the completion of properties previously under development. The Company may require additional cash in the remainder of 2007 depending on the pace of development and other factors, which management believes may be secured through one or more of the following alternatives: additional borrowings, formations of joint ventures, capital transactions, and the selective and strategic sale of mature operating properties or parcels of land held for investment. The financial condition of the Company is discussed in further detail below.

At March 31, 2007, the Company was subject to the following contractual obligations and commitments (\$ in thousands):

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	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 years
Contractual Obligations:					
Company long-term debt					
Unsecured notes payable and construction loans	\$252,327	\$ 333	\$251,994	\$	\$
Mortgage notes payable	115,354	24,236	12,498	62,604	16,016
Interest commitments under notes payable (1)	75,318	22,883	41,875	7,294	3,265
Operating leases (ground leases)	15,319	90	187	197	14,845
Operating leases (offices)	1,194	442	502	219	31
Total Contractual Obligations	\$459,511	\$ 47,984	\$307,056	\$70,314	\$34,157
Commitments:					
Letters of Credit	\$ 1,100	\$ 1,100	\$	\$	\$
Performance bonds Estimated	20,136	18,808	1,328		
Development/Redevelopment Commitments	421,393	261,112	129,455	23,317	7,508
Unfunded tenant improvements	11,073	11,073			
Total Commitments	\$453,702	\$292,093	\$130,783	\$23,317	\$ 7,508

(1) Interest on variable rate obligations is based on rates effective as of March 31, 2007.

The Company expects indebtedness to be the primary funding source for its contractual obligations and commitments. The Company's credit facility can be expanded to \$500 million under certain circumstances, although the availability of the additional capacity is not guaranteed. As of March 31, 2007, the Company had \$169.8 million drawn on its \$400 million credit facility. The amount available under this credit facility is reduced by outstanding letters of credit, which were approximately \$1.1 million at March 31, 2007. The Company's interest rate on its credit facility is variable based on LIBOR plus a spread based on certain of the Company's ratios and other factors. As of March 31, 2007, the spread over LIBOR was 0.80%.

The Company also has a \$100 million construction facility. While this facility is unsecured, advances under the facility are to be used to fund the construction costs of the Terminus 100 project. As of March 31, 2007, the Company had \$75.6 million drawn on its construction facility.

The Company's mortgage debt is primarily non-recourse fixed-rate mortgage notes secured by various real estate assets. In addition, many of the Company's non-recourse mortgages contain covenants which, if not satisfied, could result in acceleration of the maturity of the debt. The Company expects that it will either refinance the non-recourse mortgages at maturity or repay the mortgages with proceeds from other financings.

As of March 31, 2007, the weighted average interest rate on the Company's consolidated debt was 6.58%, and the Company's consolidated debt to total market capitalization ratio was 16.1%.

The Company expects to enter into fixed rate mortgage loans in 2007 and 2008 that will be secured by certain of its existing unencumbered operating properties. The Company expects proceeds from these loans will generate up to \$600 million, and the term of the loans is expected to be between five and seven years. However, there can be no assurance that the Company will be able to close any or all of the loans it is contemplating.

The Company may also generate capital through the issuance of securities that includes, but is not limited to, preferred stock under an existing shelf registration statement. As of March 31, 2007, the Company had approximately \$100 million available for issuance under this registration statement.

Over the long term, the Company will continue to actively manage its portfolio of income producing properties and strategically sell assets to capture value for stockholders and to recycle capital for future development activities. The Company will continue to utilize indebtedness to fund future commitments and expects to place long-term permanent mortgages on selected assets as well as utilize construction facilities for other development assets. The Company may enter into additional joint venture arrangements to help fund future developments and may enter into additional

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structured transactions with third parties. While the Company does not foresee the need to issue common equity in the future, it will evaluate all public equity sources and select the most appropriate options as capital is required.

The Company's business model is highly dependent upon raising capital to meet development obligations. If one or more sources of capital are not available when required, the Company may be forced to raise capital on potentially unfavorable terms which could have an adverse effect on the Company's financial position or results of operations.

Cash Flows.

Cash Flows from Operating Activities. Cash flows provided by operating activities decreased \$15.6 million between the three months ended March 31, 2006 and the corresponding 2007 period. The primary reason for the decrease was a decrease in cash flows from properties that were sold or contributed to ventures in 2006, including Frost Bank Tower, Bank of America Plaza and the properties contributed to the venture with PREI. These decreases were partially offset by cash flows from the 191 Peachtree acquisition in 2006. Another reason for the decrease in cash flows from operating activity was less sales of consolidated multi-family and residential projects. The Company completed construction and sold all of the units in its 905 Juniper multi-family residential project during 2006 and this project has not been replaced by another multi-family project as of March 31, 2007.

Cash Flows from Investing Activities. Net cash used in investing activities decreased \$39.1 million between the three months ended March 31, 2006 and the corresponding 2007 period. This decrease is partially the result of less property acquisition and development expenditures in the 2007 period. In the 2006 period, the Company purchased a tract of land to begin the Jefferson Mill industrial project and a tract of land to begin its Palisades office development. In the 2007 period, the Company only purchased one tract for its retail project in Forsyth County, Georgia. Also contributing to the decrease were proceeds received in the 2007 period from the sale of the North Point ground leased parcels and the sale of land adjacent to The Avenue Carriage Crossing. In addition, the Company received \$15.8 million in additional consideration from the transaction with PREI based on leasing activity at Viera MarketCenter and The Avenue West Cobb.

Cash Flows from Financing Activities. Cash provided by financing activities decreased \$26.5 million between the three months ended March 31, 2006 and the corresponding 2007 period. The primary reason for the decrease was a decrease in net borrowings under the Company's credit and construction facilities. Partially offsetting this decrease was an increase in common stock issued as there was a higher level of stock option exercises by employees and directors in 2007 compared to 2006. During the three months ended March 31, 2007, the Company paid common and preferred dividends of \$23.0 million which it funded with cash provided by operating activities and proceeds from investment property sales. During the 2006 period, the Company paid common and preferred dividends of \$22.6 million which it funded with cash provided by operating activities. For the foreseeable future, the Company intends to fund its quarterly distributions to common and preferred stockholders with cash provided by operating activities, a portion of proceeds from investment property sales and a portion of distributions from unconsolidated joint ventures in excess of income.

Off Balance Sheet Arrangements

The Company has a number of off balance sheet joint ventures with varying structures. At March 31, 2007, the Company's unconsolidated joint ventures had aggregate outstanding indebtedness to third parties of approximately \$429.0 million of which the Company's share was \$182.3 million. These loans are generally mortgage or construction loans most of which are non-recourse to the Company. In certain instances, the Company provides non-recourse carve-out guarantees on these non-recourse loans. One of the Company's ventures, CF Murfreesboro, which is constructing a retail center, has a \$131 million construction loan that matures on July 20, 2010, of

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which the venture has drawn approximately \$37 million. The Company guarantees 20% of the amount outstanding under the construction loan, which equals \$7.4 million at March 31, 2007. The retail center under construction serves as collateral against the loan, and the Company is liable for 20% of any difference between the proceeds from the sale of the retail center and the amounts due under the loan in the event of default. The Company has not recorded a liability as of March 31, 2007, as it estimates no obligation is or will be required. The unconsolidated joint ventures also had performance bonds which the Company guarantees, which totaled approximately \$1.6 million at March 31, 2007.

Several of these ventures are involved in the active acquisition and development of real estate. As capital is required to fund the acquisition and development of this real estate, the Company must fund its share of the costs not funded by operations or outside financing. Based on the nature of the activities conducted in these ventures, management cannot estimate with any degree of accuracy amounts that the Company may be required to fund in the short or long-term. However, management does not believe that additional funding of these ventures will have a material adverse effect on its financial condition or results of operation.

Critical Accounting Policies

There has been no material change in the Company's critical accounting policies from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's market risk related to its notes payable and notes receivable from that disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. We also have investments in certain unconsolidated entities. As we do not always control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer along with the Chief Financial Officer, of the effectiveness, design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon the foregoing, the Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective at providing reasonable assurance that all material information required to be included in our Exchange Act reports is reported in a timely manner. In addition, based on such evaluation we have identified no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Table of Contents**Item 1. Legal Proceedings**

The Company is subject to routine actions for negligence and other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material impact on the financial condition or results of operations of the Company.

Item 1A. Risk Factors

There has been no material change in the Company's risk factors from those outlined in Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains information about the Company's purchases of its equity securities during the first quarter of 2007:

	PURCHASES RELATED TO OPTIONS		TREASURY STOCK PURCHASES	
	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Shares That May Yet Be Purchased Under Plan(2)
January 1-31	2,501	\$ 38.44		5,000,000
February 1-28	477	37.40		5,000,000
March 1-31	8,751	33.19		5,000,000
Total	11,729	\$ 34.48		5,000,000

(1) Purchases of equity securities during the first quarter of 2007 related to remittances of shares of stock by employees or directors to pay for option exercises or remittances of shares of stock by employees for taxes related to restricted stock vesting.

- (2) On May 9, 2006, the Board of Directors of the Company authorized a stock repurchase plan, which expires May 9, 2009, of up to 5,000,000 shares of the Company's common stock. No purchases were made under this plan in the first quarter of 2007.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 Restated and Amended Articles of Incorporation of the Registrant, as amended December 15, 2005, filed as Exhibit 3(a)(i) to the Registrant's Form 10-K for the year ended December 31, 2005, and incorporated herein by reference.
- 3.2 Bylaws of the Registrant, as amended April 29, 1993, filed as Exhibit 3.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2002, and incorporated herein by reference.
- 11 Computation of Per Share Earnings*

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- 31.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Data required by SFAS No. 128, Earnings Per Share, is provided in Note 4 to the condensed consolidated financial statements included in this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COUSINS PROPERTIES
INCORPORATED

/s/ James A. Fleming

James A. Fleming
Executive Vice President and Chief
Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)

May 9, 2007