

COUSINS PROPERTIES INC

Form 10-K

February 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

or

☐ 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

58-0869052

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

191 Peachtree Street NE, Suite 500, Atlanta, Georgia

30303-1740

(Address of principal executive offices)

(Zip Code)

(404) 407-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of Exchange on which registered

Common Stock (\$1 par value)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 Exchange Act. (Check one):

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Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2015, the aggregate market value of the common stock of Cousins Properties Incorporated held by non-affiliates was \$2,128,680,591 based on the closing sales price as reported on the New York Stock Exchange. As of February 5, 2016, 211,441,397 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the annual stockholders meeting to be held on May 3, 2016 are incorporated by reference into Part III of this Form 10-K.

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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 this Form 10-K. These forward-looking statements include information about possible or assumed future results of the business of Cousins Properties Incorporated (“the Company”) 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:

- our business and financial strategy;
- our ability to obtain future financing arrangements;
- future acquisitions and future dispositions of operating assets;
- future acquisitions of land;
- future development and redevelopment opportunities;
- future dispositions of land and other non-core assets;
- future repurchases of our common stock;
- projected operating results;
- market and industry trends;
- future distributions;
- projected capital expenditures; and
- interest rates.

Any forward-looking statements are based upon management's beliefs, assumptions, and expectations of our future performance, taking into account information currently available. These beliefs, assumptions, and expectations may change as a result of possible events or factors, not all of which are known. If a change occurs, our 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:

- the availability and terms of capital and financing;
- the ability to refinance or repay indebtedness as it matures;
- the failure of purchase, sale, or other contracts to ultimately close;
- the failure to achieve anticipated benefits from acquisitions and investments or from dispositions;
- the potential dilutive effect of any common stock offerings;
- the failure to achieve benefits from the repurchase of our common stock;
- the availability of buyers and adequate pricing with respect to the disposition of assets;
- risks related to the geographic concentration of our portfolio, including, but not limited to, metropolitan Houston and metropolitan Atlanta;
- risks related to industry concentration of our portfolio including, but, not limited to, the energy industry;
- risks and uncertainties related to national and local economic conditions, the real estate industry in general, and the commercial real estate markets in particular;
- changes to our strategy with regard to land and other non-core holdings that require impairment losses to be recognized;
- leasing risks, including the ability to obtain new tenants or renew expiring tenants, and the ability to lease newly developed and/or recently acquired space;
- the adverse change in the financial condition of one or more of our major 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 (such as zoning approval, receipt of required permits, construction delays, cost overruns, and leasing risk);
- the loss of key personnel;
- the potential liability for uninsured losses, condemnation, or environmental issues;

the 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 intended to identify forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. We undertake 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.

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PART I

Item 1. Business

Corporate Profile

Cousins Properties Incorporated (the “Registrant” or “Cousins”) is a Georgia corporation, which has elected to be taxed as a real estate investment trust (“REIT”). Through December 31, 2014, Cousins Real Estate Corporation (“CREC”), including its subsidiaries, was a taxable entity wholly-owned by the Registrant, which was consolidated with the Registrant. CREC owned, developed, and managed its own real estate portfolio and performed certain real estate related services for other parties. On December 31, 2014, CREC merged into the Registrant. Coincident with this merger, the Registrant formed Cousins TRS Services LLC (“CTRS”), a new taxable entity wholly-owned by the Registrant. Upon formation, CTRS received a capital contribution of certain real estate assets and contracts that were previously owned by CREC. CTRS owns and manages its own real estate portfolio and performs certain real estate related services for other parties beginning in 2015. The Registrant, its subsidiaries, CREC and CTRS combined are hereafter referred to as “we,” “us,” “our” and the “Company.” Our common stock trades on the New York Stock Exchange under the symbol “CUZ.”

Our operations are conducted through a number of segments based on our method of internal reporting, which classifies operations by property and geographical area. For financial information related to each of our operating segments, see note 17 to the consolidated financial statements included in this Annual Report on Form 10-K.

Company Strategy

Our strategy is to create value for our stockholders through the acquisition, development, ownership, and management of Class A office assets and opportunistic mixed-use developments in Sunbelt markets, with a particular focus on Georgia, Texas, and North Carolina. This strategy is based on a simple platform, trophy assets, opportunistic investments, and a strong balance sheet. This approach enables us to maintain a targeted, asset-specific approach to investing where we seek to leverage our acquisition and development skills, relationships, market knowledge, and operational expertise.

2015 Activities

During 2015, we shifted our investment activities from acquisitions to development by initiating and completing Class A office assets in our target markets, enhancing the value of our existing assets through leasing activities, and maintaining a strong balance sheet. The following is a summary of our significant 2015 activities.

Investment Activity

Commenced construction on NCR Corporation's corporate headquarters building in midtown Atlanta, Georgia. The project is expected to contain 485,000 square feet of space with a total projected cost of \$200.0 million.

Formed a joint venture to potentially develop HICO Avalon, an office building in Alpharetta, Georgia.

Formed a joint venture to develop Carolina Square, a mixed-use property in Chapel Hill, North Carolina, which is expected to have 159,000 square feet of office space, 246 apartment units, and 43,000 square feet of retail space. Total project costs are expected to be \$123.0 million.

- Opened Research Park V, a Class-A office tower in Austin, Texas, containing 173,000 square feet of space.

Opened Colorado Tower, a Class-A office tower in downtown Austin, Texas, containing 373,000 square feet of space.

Opened the second phase of Emory Point in Atlanta, Georgia, a mixed-use property which consists of 307 apartments and 45,000 square feet of retail space.

Initiated a \$100.0 million share repurchase program. Through year-end, we repurchased 5.2 million shares for \$47.8 million.

Disposition Activity

Sold 200, 333, and 555 North Point Center East, office buildings located in Atlanta, Georgia, containing 411,000 square feet, for \$70.3 million.

Sold The Points at Waterview, a 203,000 square foot office tower in Dallas, Texas, for \$26.8 million

Sold 2100 Ross, an 844,000 square foot office tower in Dallas, Texas, for \$131.0 million.

Sold 8,643 acres of residential land for total gross proceeds of \$20.9 million.

Financing Activity

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Repaid without recourse, the \$14.2 million The Points at Waterview mortgage loan.

Reduced total consolidated indebtedness by \$71.1 million and maintained strong leverage ratios.

Portfolio Activity

Leased or renewed 3.0 million square feet of office space.

Increased second generation net rent per square foot by 36.7% in accordance with accounting principles generally accepted in the United States ("GAAP") and 19.8% on a cash basis.

Increased same property net operating income by 3.3% on a GAAP basis and 7.3% on a cash basis.

Other Activity

In the first quarter of 2015, increased the quarterly common stock dividend from \$0.075 per share to \$0.080 per share.

Environmental Matters

Our business operations are subject to various federal, state, and local environmental laws and regulations governing land, water, and wetlands resources. Among these are certain laws and regulations under which an owner or operator of real estate could become liable for the costs of removal or remediation of certain hazardous or toxic substances present on or in such property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may subject the owner to substantial liability and may adversely affect the owner's ability to develop the property or to borrow using such real estate as collateral.

We typically manage this potential liability through performance of Phase I Environmental Site Assessments and, as necessary, Phase II environmental sampling, on properties we acquire or develop, although no assurance can be given that environmental liabilities do not exist, that the reports revealed all environmental liabilities, or that no prior owner created any material environmental condition not known to us. In certain situations, we have also sought to avail ourselves of legal and regulatory protections offered by federal and state authorities to prospective purchasers of property. Where applicable studies have resulted in the determination that remediation was required by applicable law, the necessary remediation is typically incorporated into the acquisition or development activity of the relevant property. We are not aware of any environmental liability that we believe would have a material adverse effect on our business, assets, or results of operations.

Certain environmental laws impose liability on a previous owner of a property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not necessarily relieve an owner of such liability. Thus, although we are not aware of any such situation, we may have such liabilities on properties previously sold. We believe that we and our properties are in compliance in all material respects with applicable federal, state, and local laws, ordinances, and regulations governing the environment.

Competition

We compete with other real estate owners with similar properties located in our markets and distinguish ourselves to tenants/buyers primarily on the basis of location, rental rates/sales prices, services provided, reputation, and the design and condition of the facilities. We also compete with other real estate companies, financial institutions, pension funds, partnerships, individual investors, and others when attempting to acquire and develop properties.

Executive Offices; Employees

Our executive offices are located at 191 Peachtree Street NE, Suite 500, Atlanta, Georgia 30303-1740. On December 31, 2015, we employed 257 people.

Available Information

We make available free of charge on the "Investor Relations" page of our website, www.cousinsproperties.com, our filed and furnished reports on Forms 10-K, 10-Q, and 8-K, and all amendments thereto, as soon as reasonably practicable after the reports are filed with or furnished to the Securities and Exchange Commission (the "SEC"). Our Corporate Governance Guidelines, Director Independence Standards, Code of Business Conduct and Ethics, and the Charters of the Audit Committee, the Investment Committee, and the Compensation, Succession, Nominating and Governance Committee of the Board of Directors are also available on the "Investor Relations" page of our website. The information contained on our website is not incorporated herein by reference. Copies of these documents (without exhibits, when applicable) are also available free of charge upon request to us at 191 Peachtree Street NE, Suite 500, Atlanta, Georgia 30303-1740, Attention: Marli

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Quesinberry, Investor Relations. Ms. Quesinberry may also be reached by telephone at (404) 407-1898 or by facsimile at (404) 407-1899. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC at www.sec.gov.

Item 1A. Risk Factors

Set forth below are the risks we believe investors should consider carefully in evaluating an investment in the securities of Cousins Properties Incorporated.

General Risks of Owning and Operating Real Estate

Our ownership of commercial real estate involves a number of risks, the effects of which could adversely affect our business.

General economic and market risks. Our assets are subject to general economic and market risks. As such, in a general economic decline or recessionary climate, our assets may not generate sufficient cash to pay expenses, service debt, or cover maintenance, and, as a result, our results of operations and cash flows may be adversely affected. Factors that may adversely affect the economic performance and value of our properties include, among other things:

- changes in the national, regional, and local economic climate;
- local real estate conditions such as an oversupply of rentable space or a reduction in demand for rentable space;
- the attractiveness of our properties to tenants or buyers;
- competition from other available properties;
- changes in market rental rates and related concessions granted to tenants including, but not limited to, free rent, tenant allowances, and tenant improvement allowances; and
- the need to periodically repair, renovate, and re-lease buildings.

Uncertain economic conditions may adversely impact current tenants in our various markets and, accordingly, could affect their ability to pay rents owed to us pursuant to their leases. In periods of economic uncertainty, tenants are more likely to close less profitable locations and/or to declare bankruptcy; and, pursuant to various bankruptcy laws, leases may be rejected and thereby terminated. Furthermore, our ability to sell or lease our properties at favorable rates, or at all, may be negatively impacted by general or local economic conditions.

Our ability to collect rent from tenants may affect our ability to pay for adequate maintenance, insurance, and other operating costs (including real estate taxes). Also, the expense of owning and operating a property is not necessarily reduced when circumstances such as market factors cause a reduction in income from the property. If a property is mortgaged and we are unable to meet the mortgage payments, the lender could foreclose on the mortgage and take title to the property. In addition, interest rate levels, availability of financing, changes in laws, and governmental regulations (including those governing usage, zoning and taxes) may adversely affect our financial condition.

Impairment risks. We regularly review our real estate assets for impairment; and based on these reviews, we may record impairment losses that have an adverse effect on our results of operations. Negative or uncertain market and economic conditions, as well as market volatility, increase the likelihood of incurring impairment losses. If we decide to sell a real estate asset rather than holding it for long term investment or reduce our estimates of future cash flows on a real estate asset, the risk of impairment increases. The magnitude and frequency with which these charges occur could materially and adversely affect our business, financial condition, and results of operations.

Leasing risk. Our operating revenues are dependent upon entering into leases with, and collecting rents from, our tenants. Tenants whose leases are expiring may desire to decrease the space they lease and/or may be unwilling to continue their lease. When leases expire or are terminated, replacement tenants may not be available upon acceptable terms and market rental rates may be lower than the previous contractual rental rates. Also, our tenants may approach us for additional concessions in order to remain open and operating. The granting of these concessions may adversely affect our results of operations and cash flows to the extent that they result in reduced rental rates, additional capital improvements, or allowances paid to, or on behalf of, the tenants.

Tenant and property concentration risk. As of December 31, 2015, our top 20 tenants represented 41% of our annualized base rental revenues with no single tenant accounting for more than 8% of our annualized base rent. In addition, as of December 31, 2015, 23% of our annualized base rent comes from tenants in the energy sector with no other sector representing more than 17% of our annualized base rent. The inability of any of our significant tenants to pay rent or a decision by a significant tenant to vacate their premises prior to, or at the conclusion of, their lease term

could have a significant negative impact on our results of

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operations or financial condition if a suitable replacement tenant is not secured in a timely manner. In addition, a prolonged period of low oil or natural gas prices or other factors negatively impacting the energy industry could have an adverse impact on our energy tenants' ability to pay rent or could cause them to vacate their premises prior to, or at the conclusion of, their lease terms. These events could have a significant adverse impact on our results of operations or financial condition.

For the three months ended December 31, 2015, 45% of our net operating income was derived from the metropolitan Houston area and 41% was derived from the metropolitan Atlanta area. Any adverse economic conditions impacting Houston or Atlanta could adversely affect our overall results of operations and financial condition. Given the fact that the Houston metropolitan area has a significant presence in the energy sector, a prolonged period of low oil or natural gas prices, or other factors negatively impacting the energy industry could have an adverse impact on our ability to maintain the occupancy of our Houston properties or could cause us to lease space at rates below current in-place rents, or at rates below the rates we have leased space in our Houston properties in the prior year. In addition, factors negatively impacting the energy industry could reduce the market values of our Houston properties which could reduce our net asset value and adversely affect our financial condition and results of operations, or cause a decline in the value of our common stock.

Uninsured losses and condemnation costs. Accidents, earthquakes, terrorism incidents, and other losses at our properties could adversely affect our operating results. Casualties may occur that significantly damage an operating property, and insurance proceeds may be less than the total loss incurred by us. Although we maintain casualty insurance under policies we believe to be adequate and appropriate, including rent loss insurance on operating properties, some types of losses, such as those related to the termination of longer-term leases and other contracts, generally are not insured. Certain types of insurance may not be available or may be available on terms that could result in large uninsured losses. Property ownership also involves potential liability to third parties for such matters as personal injuries occurring on the property. Such losses may not be fully insured. In addition to uninsured losses, various government authorities may condemn all or parts of operating properties. Such condemnations could adversely affect the viability of such projects.

Environmental issues. Environmental issues that arise at our properties could have an adverse effect on our financial condition and results of operations. Federal, state, and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at a property. If determined to be liable, the owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination, or perform such investigation and clean-up itself.

Although certain legal protections may be available to prospective purchasers of property, these laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the regulated substances. Even if more than one person may have been responsible for the release of regulated substances at the property, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from regulated substances emanating from that site. We are not currently aware of any environmental liabilities at locations that we believe could have a material adverse effect on our business, assets, financial condition, or results of operations. Unidentified environmental liabilities could arise, however, and could have an adverse effect on our financial condition and results of operations.

Joint venture structure risks. Similar to other real estate companies, we have interests in various joint ventures (including partnerships and limited liability companies) and may in the future invest in real estate through such structures. Our venture partners may have rights to take actions over which we have no control, or the right to withhold approval of actions that we propose, either of which could adversely affect our interests in the related joint ventures, and in some cases, our overall financial condition and results of operations. These structures involve participation by other parties whose interests and rights may not be the same as ours. For example, a venture partner might have economic and/or other business interests or goals which are incompatible with our business interests or goals and that venture partner may be in a position to take action contrary to our interests. In addition, such venture partners may default on their obligations, which could have an adverse impact on the financial condition and

operations of the joint venture. Such defaults may result in our fulfilling their obligations that may, in some cases, require us to contribute additional capital to the ventures. Furthermore, the success of a project may be dependent upon the expertise, business judgment, diligence, and effectiveness of our venture partners in matters that are outside our control. Thus, the involvement of venture partners could adversely impact the development, operation, ownership, financing, or disposition of the underlying properties.

Liquidity risk. Real estate investments are relatively illiquid and can be difficult to sell and convert to cash quickly. As a result, our ability to sell one or more of our properties, whether in response to any changes in economic or other conditions or in response to a change in strategy, may be limited. In the event we want to sell a property, we may not be able to do so in the desired time period, the sales price of the property may not meet our expectations or requirements, and we may be required to record an impairment loss on the property as a result.

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Compliance or failure to comply with federal, state, and local regulatory requirements could result in substantial costs. Our properties are subject to various federal, state, and local regulatory requirements, such as the Americans with Disabilities Act and state and local fire, health, and life safety requirements. Compliance with these regulations may involve upfront expenditures and/or ongoing costs. If we fail to comply with these requirements, we could incur fines or other monetary damages. We do not know whether existing requirements will change or whether compliance with existing or future requirements will require significant unanticipated expenditures that will affect our cash flows and results of operations.

Financing Risks

At certain times, interest rates and other market conditions for obtaining capital are unfavorable, and, as a result, we may be unable to raise the capital needed to invest in acquisition or development opportunities, maintain our properties, or otherwise satisfy our commitments on a timely basis, or we may be forced to raise capital at a higher cost or under restrictive terms, which could adversely affect returns on our investments, our cash flows, and results of operations.

We generally finance our acquisition and development projects through one or more of the following: our Unsecured Credit Facility ("Credit Facility"), non-recourse mortgages, the sale of assets, construction loans, joint venture equity, and the issuance of common stock. Each of these sources may be constrained from time to time because of market conditions, and the related cost of raising this capital may be unfavorable at any given point in time. These sources of capital, and the risks associated with each, include the following:

Credit facilities. Terms and conditions available in the marketplace for credit facilities vary over time. We can provide no assurance that the amount we need from our Credit Facility will be available at any given time, or at all, or that the rates and fees charged by the lenders will be reasonable. We incur interest under our Credit Facility at a variable rate.

Variable rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect our cash flow and results of operations. Our Credit Facility contains customary restrictions, requireme