

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

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Address	3100 SMOKETREE CT STE 600 RALEIGH, North Carolina 27604
Telephone	919-872-4924
CIK	0000921082
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

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

3100 Smoketree Court, Suite 600, Raleigh, N.C.
(Address of principal executive office)

27604
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The Company has only one class of common stock, par value \$.01 per share, with 53,415,547 shares outstanding as of August 1, 2002.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2002

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

The information furnished in the accompanying balance sheets, statements of income, statements of stockholders' equity and statements of cash flows reflect all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and in our 2001 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(\$ in thousands)

	JUNE 30, 2002	DECEMBER 31, 2001
	----- (UNAUDITED)	-----
ASSETS		
Real estate assets, at cost:		
Land and improvements.....	\$ 443,929	\$ 437,399
Buildings and tenant improvements.....	2,949,380	2,924,384
Development in process.....	53,787	108,118
Land held for development.....	183,267	153,468
Furniture, fixtures and equipment.....	19,842	19,398
	-----	-----
	3,650,205	3,642,767
Less - accumulated depreciation.....	(431,065)	(381,773)
	-----	-----
Net real estate assets.....	3,219,140	3,260,994
Property held for sale.....	68,754	101,292
Cash and cash equivalents.....	14,194	576
Restricted cash.....	4,556	5,685
Accounts receivable, net.....	15,423	23,659
Advances to related parties.....	788	788
Notes receivable.....	33,181	43,761
Accrued straight-line rents receivable.....	49,407	49,078
Investment in unconsolidated affiliates.....	79,603	83,393
Other assets:		
Deferred leasing costs.....	110,584	102,135
Deferred financing costs.....	25,916	26,121
Prepaid expenses and other.....	12,086	10,461
	-----	-----
	148,586	138,717
Less - accumulated amortization.....	(67,867)	(59,657)
	-----	-----
Other assets, net.....	80,719	79,060
	-----	-----
Total Assets.....	\$ 3,565,765	\$ 3,648,286
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable.....	\$ 1,675,358	\$ 1,719,230
Accounts payable, accrued expenses and other liabilities.....	99,275	120,235
	-----	-----
Total Liabilities.....	1,774,633	1,839,465
Minority interest.....	192,879	203,181
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 50,000,000 authorized shares:		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 104,945 shares issued and outstanding at June 30, 2002 and December 31, 2001.....	104,945	104,945
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at June 30, 2002 and December 31, 2001.....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at June 30, 2002 and December 31, 2001.....	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; 53,423,488 and 52,891,822 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively.....	534	529
Additional paid-in capital.....	1,390,238	1,376,546
Distributions in excess of net earnings.....	(157,223)	(135,878)
Accumulated other comprehensive loss.....	(8,260)	(9,441)
Deferred compensation--restricted stock.....	(4,481)	(3,561)
	-----	-----
Total Stockholders' Equity.....	1,598,253	1,605,640
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$ 3,565,765	\$ 3,648,286
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and \$ in thousands except per share amounts)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
REVENUE:				
Rental property.....	\$ 118,613	\$ 124,385	\$ 242,569	\$ 251,226
Equity in earnings of unconsolidated affiliates.....	2,475	1,592	5,039	2,425
Interest and other income.....	2,764	7,774	6,169	15,585
Total Revenue.....	123,852	133,751	253,777	269,236
OPERATING EXPENSES:				
Rental property.....	36,940	37,775	75,059	74,167
Depreciation and amortization.....	31,298	28,773	62,309	57,630
Interest expense:				
Contractual.....	27,117	26,253	53,151	54,574
Amortization of deferred financing costs.....	341	675	680	1,340
General and administrative.....	27,458	26,928	53,831	55,914
	5,537	5,451	10,711	10,663
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item.....	22,619	34,824	51,867	70,862
Gain on disposition of land and depreciable assets.....	6,673	5,670	7,617	12,741
Income before minority interest, discontinued operations and extraordinary item.....	29,292	40,494	59,484	83,603
Minority interest.....	(3,471)	(4,985)	(7,149)	(10,124)
Income from continuing operations.....	25,821	35,509	52,335	73,479
DISCONTINUED OPERATIONS:				
Income from discontinued operations, net of minority interest.....	43	773	564	1,576
Gain on sale of discontinued operations, net of minority interest.....	2,611	-	2,611	-
	2,654	773	3,175	1,576
Net income before extraordinary item.....	28,475	36,282	55,510	75,055
Extraordinary item--loss on early extinguishment of debt....	-	(325)	-	(518)
Net income.....	28,475	35,957	55,510	74,537
Dividends on preferred stock.....	(7,713)	(7,929)	(15,426)	(16,074)
Net income available for common shareholders.....	\$ 20,762	\$ 28,028	\$ 40,084	\$ 58,463
NET INCOME PER COMMON SHARE--BASIC:				
Income from continuing operations.....	\$ 0.34	\$ 0.52	\$ 0.70	\$ 1.04
Income from discontinued operations.....	0.05	0.01	0.06	0.03
Extraordinary item--loss on early extinguishment of debt.....	-	(0.01)	-	(0.01)
Net income.....	\$ 0.39	\$ 0.52	\$ 0.76	\$ 1.06
Weighted average shares outstanding--basic.....	53,205	53,927	53,060	55,153
NET INCOME PER COMMON SHARE--DILUTED:				
Income from continuing operations.....	\$ 0.34	\$ 0.51	\$ 0.69	\$ 1.03
Income from discontinued operations.....	0.05	0.01	0.06	0.03
Extraordinary item--loss on early extinguishment of debt..	-	(0.01)	-	(0.01)
Net income.....	\$ 0.39	\$ 0.51	\$ 0.75	\$ 1.05
Weighted average shares outstanding--diluted.....	53,691	54,318	53,512	55,542
Distributions declared per common share.....	\$ 0.585	\$ 0.57	\$ 1.17	\$ 1.14

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(Unaudited and \$ in thousands, except for number of common shares)

	NUMBER OF COMMON SHARES	COMMON STOCK	SERIES A PREFERRED	SERIES B PREFERRED	SERIES D PREFERRED
	-----	-----	-----	-----	-----
Balance at December 31, 2001	52,891,822	\$ 529	\$ 104,945	\$ 172,500	\$ 100,000
Issuance of Common Stock	474,586	5	-	-	-
Common Stock Dividends	-	-	-	-	-
Preferred Stock Dividends	-	-	-	-	-
Issuance of restricted stock	57,080	-	-	-	-
Amortization of deferred compensation	-	-	-	-	-
Net Income	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Balance at June 30, 2002	53,423,488	\$ 534	\$ 104,945	\$ 172,500	\$ 100,000
	=====	=====	=====	=====	=====
	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPEN- SATION	ACCUMULATED OTHER COMPRE- HENSIVE LOSS	DISTRIBUTIONS IN EXCESS OF NET EARNINGS	TOTAL
	-----	-----	-----	-----	-----
Balance at December 31, 2001	\$ 1,376,546	\$ (3,561)	\$ (9,441)	\$ (135,878)	\$ 1,605,640
Issuance of Common Stock	12,125	-	-	-	12,130
Common Stock Dividends	-	-	-	(61,429)	(61,429)
Preferred Stock Dividends	-	-	-	(15,426)	(15,426)
Issuance of restricted stock	1,567	(1,567)	-	-	-
Amortization of deferred compensation	-	647	-	-	647
Net Income	-	-	-	55,510	55,510
Other comprehensive income	-	-	1,181	-	1,181
Balance at June 30, 2002	\$ 1,390,238	\$ (4,481)	\$ (8,260)	\$ (157,223)	\$ 1,598,253
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and \$ in thousands)

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
OPERATING ACTIVITIES:		
Net income.....	\$ 55,510	\$ 74,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	62,934	59,664
Amortization of deferred compensation.....	647	480
Minority interest.....	7,580	10,346
Equity in earnings of unconsolidated affiliates.....	(5,039)	(2,425)
Gain on disposition of land and depreciable assets.....	(10,581)	(12,741)
Reserve for deferred rent receivable.....	3,110	-
Loss on early extinguishment of debt.....	-	518
Transition adjustment upon adoption of FASB 133.....	-	556
Loss on ineffective portion of derivative instruments.....	-	428
Changes in operating assets and liabilities.....	(14,224)	(14,326)
Net cash provided by operating activities.....	99,937	117,037
INVESTING ACTIVITIES:		
Additions to real estate assets.....	(63,268)	(140,630)
Proceeds from disposition of real estate assets.....	120,200	105,500
Payment from/(advances to) subsidiaries.....	-	27,560
Distributions from unconsolidated affiliates.....	5,301	4,350
Investments in notes receivable.....	11,080	18,918
Other investing activities.....	(6,514)	(9,920)
Net cash provided by investing activities.....	66,799	5,778
FINANCING ACTIVITIES:		
Distributions paid on common stock and common units.....	(69,984)	(71,603)
Dividends paid on preferred stock.....	(15,426)	(16,074)
Payment of prepayment penalties.....	-	(518)
Borrowings on mortgages and notes payable.....	13,403	8,780
Repayments on mortgages and notes payable.....	(55,973)	(92,671)
Borrowings on revolving loans.....	174,500	215,000
Repayments on revolving loans.....	(203,500)	(103,500)
Net proceeds from the sale of common stock.....	4,821	2,157
Net change in deferred financing costs.....	1,386	(164)
Repurchase of stock and units.....	(2,762)	(138,889)
Other financing activities.....	417	--
Net cash used in financing activities.....	(153,118)	(197,482)
Net increase/(decrease) in cash and cash equivalents.....	13,618	(74,667)
Cash and cash equivalents at beginning of the period.....	576	104,780
Cash and cash equivalents at end of the period.....	\$ 14,194	\$ 30,113
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 60,590	\$ 61,837
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited and \$ in thousands)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

The following table summarizes the net assets contributed by the holders of Common Units in the Operating Partnership and the net assets acquired subject to mortgage notes payable:

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
ASSETS:		
Notes receivable.....	\$ 500	\$ 675
Accounts receivable.....	139	-
Cash and cash equivalents.....	1,114	1,074
Rental property and equipment, net.....	36,828	48,646
Deferred leasing costs.....	995	-
LIABILITIES:		
Mortgages and notes payable.....	27,698	48,831
Accounts payable, accrued expenses and other liabilities.....	10,321	2,084
Net assets.....	\$ 1,557	\$ (520)
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

(Unaudited)

1. DESCRIPTION OF THE COMPANY

The Company is a self-administered and self-managed REIT that operates in the southeastern and midwestern United States. The Company's wholly-owned assets include: 500 in-service office, industrial and retail properties; 1,304 acres of undeveloped land suitable for future development; and an additional 10 properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. At June 30, 2002, the Company owned 88.3% of the Common Units in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of Common Stock or, at the Company's option, one share of Common Stock. When a Common Unit holder redeems a Common Unit for a share of Common Stock or cash, the minority interest will be reduced and the Company's share in the Operating Partnership will be increased. The Common Units owned by the Company are not redeemable for cash.

2. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and the Operating Partnership and their majority-controlled affiliates. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt, net of the minority interest.

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to stockholders.

Minority interest in the Company represents Common Units in the Operating Partnership owned by various individuals and entities other than the Company. Per share information is calculated using the weighted average number of shares outstanding (including common share equivalents). In addition, minority interest includes equity of consolidated real estate partnerships, which are owned by various individuals and entities and not the Company.

Certain amounts in the June 30, 2001 and December 31, 2001 financial statements have been reclassified to conform to the June 30, 2002 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

The accompanying financial information has not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows have been made. For further information, refer to the financial statements and notes thereto included in our 2001 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

3. SEGMENT INFORMATION

Our sole business is the acquisition, development and operation of rental real estate properties. We operate office, industrial and retail properties and apartment units. There are no material inter-segment transactions.

Our chief operating decision maker ("CDM") assesses and measures operating results based upon property level net operating income. The operating results for the individual assets within each property type have been aggregated since the CDM evaluates operating results and allocates resources on a property-by-property basis within the various property types.

Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three and six months ended June 30, 2002 and 2001 (\$ in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
RENTAL PROPERTY INCOME:				
Office segment.....	\$ 98,316	\$ 102,235	\$ 201,625	\$ 206,223
Industrial segment.....	10,783	11,933	21,329	23,513
Retail segment.....	9,256	8,653	19,003	18,355
Apartment segment.....	258	1,564	612	3,135
	-----	-----	-----	-----
Total Rental Property Income.....	\$ 118,613	\$ 124,385	\$ 242,569	\$ 251,226
	=====	=====	=====	=====
NET OPERATING INCOME:				
Office segment.....	\$ 66,676	\$ 64,460	\$ 136,992	\$ 143,414
Industrial segment.....	8,843	11,933	17,579	19,837
Retail segment.....	6,071	8,653	12,689	12,175
Apartment segment.....	83	1,564	250	1,633
	-----	-----	-----	-----
Total Net Operating Income.....	\$ 81,673	\$ 86,610	\$ 167,510	\$ 177,059
	-----	-----	-----	-----
Reconciliation to income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item:				
Equity in earnings of unconsolidated affiliates.....	\$ 2,475	\$ 1,592	\$ 5,039	\$ 2,425
Interest and other income.....	2,764	7,774	6,169	15,585
Interest expense.....	(27,458)	(26,928)	(53,831)	(55,914)
General and administrative expenses.....	(5,537)	(5,451)	(10,711)	(10,663)
Depreciation and amortization.....	(31,298)	(28,773)	(62,309)	(57,630)
	-----	-----	-----	-----
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item....	\$ 22,619	\$ 34,824	\$ 51,867	\$ 70,862
	=====	=====	=====	=====
TOTAL ASSETS:				
Office segment.....	\$ 2,805,585	\$ 2,708,324	\$ 2,805,585	\$ 2,708,324
Industrial segment.....	328,320	398,740	328,320	398,740
Retail segment.....	249,797	258,135	249,797	258,135
Apartment segment.....	11,741	39,607	11,741	39,607
Corporate and other.....	170,322	205,209	170,322	205,209
	-----	-----	-----	-----
Total Assets.....	\$ 3,565,765	\$ 3,610,015	\$ 3,565,765	\$ 3,610,015
	=====	=====	=====	=====

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

During the past several years, we have formed various joint ventures with unrelated investors. We have retained minority equity interests ranging from 12.50% to 50.00% in these joint ventures. As required by GAAP, we have accounted for our joint venture activity using the equity method of accounting, as we do not control these joint ventures. As a result, the assets and liabilities of our joint ventures are not included on our balance sheet. As of June 30, 2002, our joint ventures have approximately \$566.5 million of outstanding debt. All of the joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) with respect to \$5.0 million of construction debt related to the MG-HIW Metrowest I, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Metrowest I, LLC debt represented 50.00% of the outstanding loan balance at June 30, 2002. Selected financial data for unconsolidated affiliates for the six months ended June 30, 2002 and 2001 is presented below (\$ in thousands):

	PERCENT OWNED AT JUNE 30,	
	2002	2001
Board of Trade Investment Company.....	49.00%	49.00%
Dallas County Partners I, LP.....	50.00	50.00
Dallas County Partners II, LP.....	50.00	50.00
Dallas County Partners III, LP.....	50.00	50.00
Fountain Three.....	50.00	50.00
Kessinger/Hunter, LLC.....	30.00	30.00
4600 Madison Associates, LP.....	12.50	12.50
Dreilander-Fonds 98/29.....	22.81	22.81
Dreilander-Fonds 97/26 and 99/32.....	42.93	44.70
RRHWoods, LLC.....	50.00	50.00
Highwoods-Markel Associates, LLC.....	50.00	50.00
MG-HIW, LLC.....	20.00	20.00
MG-HIW Peachtree Corners, LLC.....	50.00	50.00
MG-HIW Rocky Point, LLC (1).....	--	50.00
MG-HIW Metrowest I, LLC.....	50.00	50.00
MG-HIW Metrowest II, LLC.....	50.00	50.00
Concourse Center Associates, LLC.....	50.00	--
Plaza Colonnade, LLC.....	50.00	--
	JUNE 30, 2002	JUNE 30, 2001
Total assets.....	\$ 891,175	\$ 886,671
Total debt.....	566,462	556,505
Total liabilities.....	593,701	587,508
	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,
	2002	2001
	2002	2001
Total net income.....	\$ 8,123	\$ 6,238
	\$ 17,025	\$ 10,049

(1) On June 26, 2002, we acquired our joint venture partner's interest in MG-HIW Rocky Point, LLC to bring our ownership interest in that entity to 100.0%. At June 30, 2002, the assets and liabilities of this entity are included in the consolidated balance sheet and, thus, are not included under "Total assets", "Total debt" or "Total liabilities" in the above table. However, net income from this joint venture is included in the "Total net income" in the above table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

5. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, we adopted Financial Accounting Standards Board Statement (SFAS) No. 133/138, "Accounting for Derivative Instruments and Hedging Activities," as amended. This statement requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in Accumulated Other Comprehensive Loss ("AOCL") until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. In connection with the adoption of SFAS 133/138 in January 2001, we recorded a net transition adjustment of \$555,962 of unrealized loss in interest and other income and a net transition adjustment of \$125,000 in AOCL. Adoption of the standard also resulted in our recognizing \$127,000 of derivative instrument liabilities and a reclassification of approximately \$10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to AOCL.

Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cashflows and to lower overall borrowing costs. To achieve these objectives, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold these derivatives for trading or speculative purposes.

On the date that we enter into a derivative contract, we designate the derivative as (1) a hedge of the variability of cash flows that are to be received or paid in connection with a recognized liability (a "cash flow" hedge), or (2) an instrument that is held as a non-hedge derivative. Changes in the fair value of highly effective cash flow hedges, to the extent that the hedge is effective, are recorded in AOCL, until earnings are affected by the hedged transaction (i.e. until periodic settlements of a variable-rate liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the transaction) is recorded in current-period earnings. Changes in the fair value of non-hedging instruments are reported in current-period earnings.

We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to (1) specific assets and liabilities on the balance sheet or (2) forecasted transactions. We also assess and document, both at the hedging instrument's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. When we determine that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting prospectively.

During the six months ended June 30, 2002, we had an interest rate swap and an interest rate collar each mature, resulting in a debit to interest rate derivative liability and an offsetting credit to AOCL of \$411,000. As of June 30, 2002, we had no derivative instruments reported as Other Liabilities or Assets. However, \$8.3 million of deferred financing costs from past cash flow hedging instruments remain in AOCL at June 30, 2002 and will be recognized into earnings as the underlying debt is repaid. We expect that the portion of the cumulative loss recorded in AOCL at June 30, 2002 associated with the derivative instruments, which will be recognized within the next 12 months, will be approximately \$1.6 million.

On July 31, 2002, we entered into two \$24.0 million five-year treasury lock agreements with two financial counterparties at a fixed rate of 3.695% to mitigate the change in expected interest payments on an anticipated five-year fixed-rate financing. We expect that these treasury lock agreements will be deemed highly effective in accordance with SFAS 133/138 and will be initially reflected in AOCL on the consolidated balance sheet.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

6. OTHER COMPREHENSIVE INCOME /(LOSS)

Other comprehensive income/(loss) represents net income plus the results of certain non-stockholders' equity changes not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows (\$ in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
Net Income.....	\$ 55,510	\$ 74,537
Accumulated other comprehensive income/(loss):		
Unrealized derivative gains/(losses) on cashflow hedges.....	411	(414)
Reclassification of past hedging relationships.....	--	(10,597)
Amortization of past hedging relationships.....	770	784
Total other comprehensive income/(loss).....	1,181	(10,227)
Total comprehensive income.....	\$ 56,691	\$ 64,310
	=====	=====

7. DISCONTINUED OPERATIONS AND THE IMPAIRMENT OF LONG-LIVED ASSETS

As of January 1, 2002, we adopted Financial Accounting Standards Board Statement (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and the appropriate amounts are disclosed separately under income from discontinued operations on the consolidated income statement. Below represents the total revenues, rental operating expenses, depreciation and amortization, income from discontinued operations, net of minority interest, gain on sale of discontinued operations, net of minority interest and net carrying value of the properties sold and held for sale at June 30, 2002 (which account for 834,128 rentable square feet) as a result of our capital recycling program and included in income from discontinued operations for the three and six months ended June 30, 2002 and 2001 (\$ in thousands):

	TYPE	TOTAL REVENUES	RENTAL OPERATING EXPENSES	DEPRECIATION AND AMORTIZATION	INCOME FROM DISCONTINUED OPERATIONS, NET OF MINORITY INTEREST	GAIN ON SALE OF DISCONTINUED OPERATIONS, NET OF MINORITY INTEREST	NET CARRYING VALUE

Three Months Ended June 30, 2002	Office	\$ 769	\$ 450	\$ 270	\$ 43	\$ 2,611	\$ 19,411
	Total	\$ 769	\$ 450	\$ 270	\$ 43	\$ 2,611	\$ 19,411
=====							
June 30, 2001	Office	\$ 1,815	\$ 588	\$ 344	\$ 773	\$ -	\$ 44,258
	Total	\$ 1,815	\$ 588	\$ 344	\$ 773	\$ -	\$ 44,258
=====							
Six Months Ended June 30, 2002	Office	\$ 2,226	\$ 959	\$ 626	\$ 564	\$ 2,611	\$ 19,411
	Total	\$ 2,226	\$ 959	\$ 626	\$ 564	\$ 2,611	\$ 19,411
=====							
June 30, 2001	Office	\$ 3,597	\$ 1,105	\$ 693	\$ 1,576	\$ -	\$ 44,258
	Total	\$ 3,597	\$ 1,105	\$ 693	\$ 1,576	\$ -	\$ 44,258
=====							

In addition, in accordance with SFAS 144, we have determined that as of June 30, 2002, the carrying value of one industrial property held for sale is greater than its fair value, less costs to sell. Additionally, we have determined that the carrying value of one office property held and used will not be recovered from its undiscounted future operating cash flows. In total, we have recognized a \$9.9 million impairment loss, which is included in the gain on the sale of land and depreciable assets in the consolidated statements of income for the three and six months ended June 30, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with all of the financial statements appearing elsewhere in the report and is based primarily on the consolidated financial statements of the Company.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Business". You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- . speculative development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to tenant demand;
- . the financial condition of our tenants could deteriorate;
- . the costs of our development projects could exceed our original estimates;
- . we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- . we may not be able to lease or re-lease space quickly or on as favorable terms as old leases;
- . we may have incorrectly assessed the environmental condition of our properties;
- . an unexpected increase in interest rates would increase our debt service costs;
- . we may not be able to continue to meet our long-term liquidity requirements on favorable terms;
- . we could lose key executive officers; and
- . our southeastern and midwestern markets may suffer additional declines in economic growth or may not recover as fully or as quickly as expected.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in "Business - Risk Factors" set forth in our 2001 Annual Report.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances, or to reflect the occurrence of unanticipated events.

OVERVIEW

We are a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. Since the Company's initial public offering in 1994, we have evolved into one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At June 30, 2002, we:

- . owned 500 in-service office, industrial and retail properties, encompassing approximately 37.9 million rentable square feet;

. owned an interest (50.0% or less) in 76 in-service office and industrial properties, encompassing approximately 7.4 million rentable square feet and 418 apartment units;

. owned 1,304 acres (and have agreed to purchase an additional eight acres over the next year) of undeveloped land suitable for future development;

. owned 10 development properties, encompassing approximately 992,000 rentable square feet; and

. owned an interest (50.0% or less) in two development properties, encompassing 373,000 rentable square feet.

The following summarizes our capital recycling program since the beginning of 2000:

	SIX MONTHS ENDED JUNE 30, 2002	YEAR ENDED 2001	YEAR ENDED 2000
OFFICE, INDUSTRIAL AND RETAIL PROPERTIES (rentable square feet in thousands)			
Dispositions (1).....	(856)	(268)	(4,743)
Contributions to Joint Ventures (1).....	--	(118)	(2,199)
Developments Placed In-Service.....	1,337	1,351	3,480
Acquisitions.....	205	72	669
	-----	-----	-----
Net Change in Wholly-owned In-Service Properties.....	686	1,037	(2,793)
	=====	=====	=====
APARTMENT PROPERTIES (in units)			
Dispositions.....	--	(1,672)	--
	=====	=====	=====

(1) Excludes wholly-owned development projects sold or contributed to joint ventures.

In addition to the above property activity, we repurchased \$2.8 million, \$147.4 million and \$100.2 million of Common Stock and Common Units during 2002, 2001 and 2000, respectively, and \$18.5 million of Preferred Stock during 2001.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. At June 30, 2002, the Company owned 88.3% of the Common Units in the Operating Partnership.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements contained elsewhere in this Quarterly Report. Our Consolidated Financial Statements include the accounts of the Company and the Operating Partnership and their majority-controlled affiliates. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from our estimates.

The estimates used in the preparation of our Consolidated Financial Statements are more fully described in Note (1) to our audited Consolidated Financial Statements for the year ended December 31, 2001, included in our 2001 Form 10-K. However, certain of our significant accounting policies are considered critical accounting policies due to the increased level of assumptions used or estimates made in determining their impact on our Consolidated Financial Statements presented for any interim period. Management has reviewed our critical accounting policies and estimates with the audit committee of the Company's board of directors.

We consider our critical accounting policies to be those used in the determination of the reported amounts and disclosure related to the following:

- . Impairment of long-lived assets;
- . Allowance for doubtful accounts;
- . Capitalized costs;
- . Fair value of derivative instruments;
- . Rental revenue; and
- . Investments in joint ventures.

Impairment of long-lived assets. Real estate and leasehold improvements are classified as long-lived assets held for sale or as long-lived assets to be held and used. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we record assets held for sale at the lower of the carrying amount or fair value less cost to sell. The impairment loss is the amount by which the carrying amount exceeds the fair value less cost to sell. With respect to assets classified as held and used, we periodically review these assets to determine whether our carrying amount will be recovered from their undiscounted future operating cash flows and we recognize an impairment loss to the extent we believe the carrying amount is not recoverable. Our determination of future operating cash flows requires us to make assumptions related to future rental rates, tenant concessions, operating expenditures, property taxes and capital improvements. If our assumptions prove incorrect and our estimates of future operating cash flows are materially overstated, we could be required to recognize future impairment losses on our properties.

Allowance for doubtful accounts. Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Our receivable balance is comprised primarily of rents and operating cost recoveries due from tenants as well as accrued rental rate increases to be received over the life of the existing leases. We regularly evaluate the adequacy of our allowance for doubtful accounts considering such factors as the credit quality of our tenants, delinquency of payment, historical trends and current economic conditions. Actual results may differ from these estimates under different assumptions or conditions. If our assumptions regarding the collectibility of accounts receivables prove incorrect, we could experience write-offs of accounts receivable or accrued straight-line rents receivable in excess of our allowance for doubtful accounts.

Capitalized costs. Expenditures directly related to both the development of real estate assets and the leasing of properties are included in net real estate assets and are stated at cost in the consolidated balance sheets. The development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs, real estate taxes, salaries and other costs incurred during the period of development. The leasing expenditures include all general and administrative costs, including salaries incurred in connection with successfully securing leases on the properties. Estimated costs related to unsuccessful leases are expensed as incurred. If our assumptions regarding the successful efforts of development and leasing are incorrect, the resulting adjustments could impact earnings.

Fair value of derivative instruments. In the normal course of business, we are exposed to the effect of interest rate changes. We limit our exposure by following established risk management policies and procedures including the use of derivatives. To mitigate our exposure to unexpected changes in interest rates, derivatives are used primarily to hedge against rate movements on our related debt. We are required to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and to measure those instruments at fair value. Changes in fair value will affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes.

To determine the fair value of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments, including most derivatives, standard market conventions and techniques such as discounted cash flow analysis, option pricing modes, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Rental revenue. Rental revenue is comprised of base rent, including termination fees, recoveries from tenants and parking and other income. In accordance with GAAP, base rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Recoveries from tenants represent reimbursements for certain costs as provided in the lease agreements. These costs generally include real estate taxes, utilities, insurance, common area maintenance and other recoverable costs.

Investments in joint ventures. We account for our investments in unconsolidated joint ventures using the equity method of accounting because we do not control these joint venture entities. These investments are initially recorded at cost, as investments in unconsolidated affiliates, and are subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated affiliates over 40 years. In connection with the MG-HIW, LLC joint venture, we have guaranteed Miller Global, our partner who has an 80.0% interest in the joint venture, a minimum internal rate of return on \$50.0 million of their equity. If the minimum internal rate of return is not achieved upon the sale of the assets or winding up of the joint venture, Miller Global would receive a disproportionately greater interest of the cash proceeds related to the assets subject to the internal rate of return guarantee. Based upon the current operating performance of the assets and our estimate of the residual value of the subject assets, the estimated internal rate of return for Miller Global with respect to the assets exceeds the minimum required return. As a result, we do not currently expect that our interest in the joint venture will be adjusted upon the sale of the subject assets or the winding up of the joint venture as a result of the internal rate of return guarantee. However, if our assumptions and estimates prove incorrect, Miller Global could receive a greater interest of the cash proceeds from any such sale or winding up.

RESULTS OF OPERATIONS

The following table sets forth information regarding our results of operations for the three and six months ended June 30, 2002 and 2001 (\$ in millions):

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2002	2001	\$ CHANGE	2002	2001	\$ CHANGE
REVENUE:						
Rental property.....	\$ 118.6	\$ 124.4	\$ (5.8)	\$ 242.6	\$ 251.2	\$ (8.6)
Equity in earnings of unconsolidated affiliates...	2.5	1.6	0.9	5.0	2.4	2.6
Interest and other income.....	2.7	7.8	(5.1)	6.2	15.6	(9.4)
Total Revenue.....	123.8	133.8	(10.0)	253.8	269.2	(15.4)
OPERATING EXPENSES:						
Rental property.....	37.0	37.8	(0.8)	75.1	74.2	0.9
Depreciation and amortization.....	31.3	28.8	2.5	62.3	57.6	4.7
Interest expense:						
Contractual.....	27.1	26.2	0.9	53.1	54.6	(1.5)
Amortization of deferred financing costs.....	0.3	0.7	(0.4)	0.7	1.3	(0.6)
General and administrative.....	27.4	26.9	0.5	53.8	55.9	(2.1)
	5.5	5.5	-	10.7	10.7	-
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item.	22.6	34.8	(12.2)	51.9	70.8	(18.9)
Gain on disposition of land and depreciable assets	6.7	5.7	1.0	7.6	12.7	(5.1)
Income before minority interest, discontinued operations and extraordinary item.....	29.3	40.5	(11.2)	59.5	83.6	(24.1)
Minority interest.....	(3.5)	(5.0)	1.5	(7.2)	(10.1)	2.9
Income from continuing operations.....	25.8	35.5	(9.7)	52.3	73.5	(21.2)
DISCONTINUED OPERATIONS:						
Income from discontinued operations, net of minority interest.....	0.1	0.8	0.9	0.6	1.6	(1.0)
Gain on sale of discontinued operations, net of minority interest.....	2.6	-	2.6	2.6	-	2.6
Net income before extraordinary item.....	2.7	0.8	3.5	3.2	1.6	1.6
Extraordinary item -- loss on early extinguishment of debt.....	28.5	36.3	(7.8)	55.5	75.1	(19.5)
	-	(0.3)	0.3	-	(0.5)	0.5
Net income.....	28.5	35.9	(7.5)	55.5	74.6	(19.0)
Dividends on preferred stock.....	(7.7)	(7.9)	0.2	(15.4)	(16.1)	0.6
Net income available for common shareholders.....	\$ 20.8	\$ 28.0	\$ (7.2)	\$ 40.1	\$ 58.5	\$ (18.4)

Three Months Ended June 30, 2002. Revenues from rental operations decreased \$5.8 million, or 4.7%, from \$124.4 million for the three months ended June 30, 2001 to \$118.6 million for the three months ended June 30, 2002. The decrease was primarily due to a decrease in the average occupancy rates from 93.2% in the second quarter of 2001 to 87.2% in the second quarter of 2002. In addition, we have written off approximately \$3.1 million of accrued straight-line rent receivables from WorldCom and its affiliates as of June 30, 2002. Slightly offsetting the decrease was an increase in rental revenues as a result of an increase in our property portfolio in 2002 as a result of our capital recycling program, which included 1.3 million rentable square feet of properties that were placed in service during 2002. Our in-service wholly-owned portfolio increased from 36.7 million rentable square feet at June 30, 2001 to 37.9 million rentable square feet at June 30, 2002.

Same property rental revenue, recorded in accordance with GAAP, generated from the 475 in-service properties wholly-owned on January 1, 2001, decreased \$7.5 million, or 6.4%, for the three months ended June 30, 2002, compared to the three months ended June 30, 2001. Same store straight-line rent decreased \$4.1 million, primarily as a result of the \$3.1 million write-off of the WorldCom accrued straight-line rent receivable and a decrease of \$1.0 million due to the impact from the straight lining of rents discussed generally in our critical accounting policies. Same store rental revenues excluding straight-line rent and termination fees decreased \$3.6 million, or 3.2%. This decrease is a result of lower same store average occupancy, which declined from 93.1% in 2001 to 87.3% in 2002.

During the three months ended June 30, 2002, 207 second generation leases representing 1.9 million square feet of office, industrial and retail space were executed at an average rate per square foot, which was 2.7% lower than the average rate per square foot on the previous leases.

Equity in earnings of unconsolidated affiliates increased \$0.9 million, or 56.3%, from \$1.6 million for the three months ended June 30, 2001 to \$2.5 million for the three months ended June 30, 2002. The increase was primarily a result of an increase in occupancy rates in 2002 for certain joint ventures formed with unrelated investors and earnings from certain development joint ventures formed with unrelated investors in late December 2000 in which the properties have been placed in service during 2002.

Interest and other income decreased \$5.1 million, or 65.4%, from \$7.8 million for the three months ended June 30, 2001 to \$2.7 million for the three months ended June 30, 2002. The decrease primarily resulted from a decrease in leasing and development fee income in the three months ended June 30, 2002 and a decrease in interest income in the three months ended June 30, 2002 due to lower average cash balances (during 2001, we had higher cash balances as a result of proceeds from dispositions related to our capital recycling program that were ultimately used in our stock repurchase program) and the collection of notes receivable during 2001 and 2002.

Rental operating expenses (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) decreased \$0.8 million, or 2.1%, from \$37.8 million for the three months ended June 30, 2001 to \$37.0 million for the three months ended June 30, 2002. This decrease was primarily a result of lower occupancy relative to variable operating expenses offset by increases in real estate taxes, primarily due to higher property tax assessments, utilities and small increases in various other rental expenses in 2002. Rental operating expenses as a percentage of related revenues increased from 30.4% for the three months ended June 30, 2001 to 31.2% for the three months ended June 30, 2002.

Same property rental property expenses, which are the expenses of the 475 in-service properties wholly-owned on January 1, 2001, decreased \$112,713, or 0.3%, for the three months ended June 30, 2002, compared to the three months ended June 30, 2001. This decrease was primarily a result of lower occupancy relative to variable operating expenses offset by increases in real estate taxes, primarily due to higher property tax assessments, utilities and small increases in various other rental expense accounts in 2002.

Depreciation and amortization for the three months ended June 30, 2002 and 2001 totaled \$31.3 million and \$28.8 million, respectively. The increase of \$2.5 million, or 8.7%, was due to an increase in the amortization of leasing commissions and tenant improvements and an increase in depreciation expense related to buildings placed in service during 2001 and 2002, partly offset by a decrease in the depreciation expense as a result of dispositions during 2002 and 2001.

Interest expense increased \$0.5 million, or 1.9%, from \$26.9 million for the three months ended June 30, 2001 to \$27.4 million for the three months ended June 30, 2002. The increase was primarily attributable to an increase in the average outstanding debt for the three months ended June 30, 2002 partly offset by a decrease in weighted average interest rates during the three months ended June 30, 2002. Interest expense for the three months ended June 30, 2002 and 2001 included \$0.3 million and \$0.7 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. Capitalized interest for the three months ended June 30, 2002 and 2001 were \$2.6 million and \$4.1 million, respectively.

General and administrative expenses as a percentage of total revenues was 4.5% in the second quarter of 2002 and 4.1% in the second quarter of 2001.

Gain on disposition of land and depreciable assets increased \$1.0 million, or 17.6%, from \$5.7 million for the quarter ended June 30, 2001 to \$6.7 million for the quarter ended June 30, 2002. In 2001, the majority of the gain was a result of the disposition of 883 apartment units. In 2002, the majority of the gain was related to a gain of approximately \$16.4 million related to the disposition of 396,000 rentable square feet of office and development properties, partly offset by an impairment loss of approximately \$9.9 million (see Note 7).

Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item equaled \$22.6 million and \$34.8 million for the quarters ended June 30, 2002 and 2001,

respectively. The Company's net income allocated to minority interest totaled \$3.5 million and \$5.0 million for the quarters ended June 30, 2002 and 2001, respectively. The Company recorded \$7.7 million and \$7.9 million in preferred stock dividends for each of the quarters ended June 30, 2002 and 2001, respectively. The decrease in preferred stock dividends was a result of the \$18.5 million repurchase by the Company of its preferred stock during 2001.

Six Months Ended June 30, 2002. Revenues from rental operations decreased \$8.6 million, or 3.4%, from \$251.2 million for the six months ended June 30, 2001 to \$242.6 million for the six months ended June 30, 2002. The decrease was primarily due to a decrease in the average occupancy rates from 93.4% for the six months ended June 30, 2001 to 88.0% for the six months ended June 30, 2002. In addition, we have written off approximately \$3.1 million of accrued straight-line rent receivables from WorldCom and its affiliates as of June 30, 2002. Slightly offsetting the decrease was an increase in rental revenues as a result of an increase in our property portfolio in 2002 as a result of our capital recycling program, which included 1.3 million rentable square feet of properties that were placed in service during 2002. Our in-service wholly-owned portfolio increased from 36.7 million rentable square feet at June 30, 2001 to 37.9 million rentable square feet at June 30, 2002.

Same property rental revenue, recorded in accordance with GAAP, generated from the 475 in-service properties wholly-owned on January 1, 2001, decreased \$10.1 million for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. Same store straight-line rent revenue decreased \$5.6 million as a result of the \$3.1 million write-off of the WorldCom accrued straight-line rent receivable and a decrease of \$2.5 million due to the impact from the straight lining of rents discussed generally in our critical accounting policies. Same store revenues excluding straight-line rent and termination fees decreased \$5.3 million, or 2.3%. This decrease is a result of lower same store average occupancy, which declined from 93.6% in 2001 to 88.1% in 2002.

During the six months ended June 30, 2002, 344 second generation leases representing 2.5 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 1.7% lower than the average rate per square foot on the previous leases.

Equity in earnings of unconsolidated affiliates increased \$2.6 million, or 108.3%, from \$2.4 million for the six months ended June 30, 2001 to \$5.0 million for the six months ended June 30, 2002. The increase was primarily a result of an increase in occupancy rates in 2002 for certain joint ventures formed with unrelated investors and earnings from certain development joint ventures formed with unrelated investors in late December 2000 in which the properties have been placed in service during 2002.

Interest and other income decreased \$9.4 million, or 60.3%, from \$15.6 million for the six months ended June 30, 2001 to \$6.2 million for the six months ended June 30, 2002. The decrease primarily resulted from a decrease in leasing and development fee income in the six months ended June 30, 2002 and a decrease in interest income in the six months ended June 30, 2002 due to lower average cash balances (during 2001, we had higher cash balances as a result of proceeds from dispositions related to our capital recycling program that were ultimately used in our stock repurchase program) and the collection of notes receivable during 2001 and 2002.

Rental operating expenses (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) increased \$0.9 million, or 1.2%, from \$74.2 million for the six months ended June 30, 2001 to \$75.1 million for the six months ended June 30, 2002. The increase was primarily a result of an increase in real estate taxes in 2002 partly offset by a decrease resulting from lower occupancy relative to variable operating expenses. Rental operating expenses as a percentage of related revenues increased from 29.5% for the six months ended June 30, 2001 to 31.0% for the six months ended June 30, 2002.

Same property rental property expenses, which are the expenses of the 475 in-service properties wholly-owned on January 1, 2001, decreased \$423,368, or 0.6%, for the six months ended June 30, 2002, compared to the six months ended June 30, 2001. This decrease was primarily a result of lower occupancy relative to variable operating expenses offset by increases in real estate taxes, primarily due to higher property tax assessments, utilities and small increases in various other rental expenses.

Depreciation and amortization for the six months ended June 30, 2002 and 2001 totaled \$62.3 million and \$57.6 million, respectively. The increase of \$4.7 million, or 8.2%, was due to an increase in the amortization of leasing commissions and tenant improvements and an increase in depreciation expense related to buildings placed in service

during 2001 and 2002, partly offset by a decrease in the depreciation expense as a result of dispositions during 2002 and 2001.

Interest expense decreased \$2.1 million, or 3.8%, from \$55.9 million for the six months ended June 30, 2001 to \$53.8 million for the six months ended June 30, 2002. The decrease was primarily attributable to the decrease in the weighted average interest rates for the six months ended June 30, 2002, partly offset by an increase in the average outstanding debt for the six months ended June 30, 2002. Interest expense for the six months ended June 30, 2002 and 2001 included \$0.7 million and \$1.3 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. Capitalized interest for the six months ended June 30, 2002 and 2001 was \$6.6 million and \$7.1 million, respectively.

General and administrative expenses as a percentage of total revenues was 4.2% and 4.0% in the first six months of 2002 and 2001, respectively.

Gain on disposition of land and depreciable assets decreased \$5.1 million, or 40.4%, from \$12.7 million for the six months ended June 30, 2001 to \$7.6 million for the six months ended June 30, 2002. In 2001, the majority of the gain was a result of the disposition of 1,160 apartment units. In 2002, the majority of the gain was related to a gain of approximately \$ 17.4 million related to the disposition of 524,000 rentable square feet of office and development properties, partly offset by an impairment loss of approximately \$9.9 million (see Note 7).

Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item equaled \$51.9 million and \$70.8 million for the six months ended June 30, 2002 and 2001, respectively. The Company's net income allocated to minority interest totaled \$7.2 million and \$10.1 million for the six months ended June 30, 2002 and 2001, respectively. The Company recorded \$15.4 million and \$16.1 million in preferred stock dividends for each of the six months ended June 30, 2002 and 2001, respectively. The decrease was a result of the \$18.5 million repurchase by the Company of its preferred stock during 2001.

LIQUIDITY AND CAPITAL RESOURCES

Statement of Cash Flows. The following table sets forth the changes in the Company's cash flows from the first six months of 2001 as compared to the first six months of 2002 (\$ in thousands):

	SIX MONTHS ENDED JUNE 30 ,		CHANGE
	2002	2001	
Cash Provided By Operating Activities	\$ 99,937	\$ 117,037	\$ (17,100)
Cash Provided By Investing Activities	66,799	5,778	61,021
Cash Used in Financing Activities	(153,118)	(197,482)	44,364

The decrease in cash provided by operating activities was primarily the result of (1) our capital recycling program and a decrease in average occupancy rates for our wholly-owned portfolio; (2) an increase in real estate taxes in the first six months of 2002, primarily due to higher property assessments; and (3) a decrease in interest income and development and leasing income in 2002. In addition, the level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses.

The increase in cash provided by investing activities was primarily a result of a decrease of \$77.4 million in additions to real estate assets in the first six months of 2002, partly offset by a decrease in the investments in notes receivable from the first six months of 2001 to the first six months of 2002 and a decrease in the collection of advances from subsidiaries of \$27.6 million from the first six months of 2001 to the first six months of 2002.

The decrease in cash used in financing activities was primarily a result of a decrease of \$136.1 million in the repurchase of Common Stock and Common Units from the first six months of 2001 to the first six months of 2002, a decrease of \$2.3 million in distributions paid on common stock, common units and preferred stock during 2002 and an increase in net proceeds from the sale of common stock of \$2.7 million in 2002 partly offset by an increase of \$99.2 million in net repayment on the unsecured revolving loan, mortgages and notes payable from the first six months of 2001 to the first six months of 2002.

Capitalization. Based on our total market capitalization of \$3.62 billion at June 30, 2002 (at the June 30, 2002 stock price of \$26.00 and assuming the redemption for shares of Common Stock of the 7.1 million Common Units

of minority interest in the Operating Partnership), our debt represented approximately 46.2% of our total market capitalization. Our total indebtedness at June 30, 2002 was \$1.7 billion and was comprised of \$544.4 million of secured indebtedness with a weighted average interest rate of 7.7% and \$1.1 billion of unsecured indebtedness with a weighted average interest rate of 6.5%. We do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. For a more complete discussion of our long-term liquidity needs, see "Current and Future Cash Needs."

The following table sets forth the maturity schedule of our mortgages and notes payable as of June 30, 2002 (\$ in thousands):

	TOTAL	WITHIN 1 YEAR	WITHIN 2-3 YEARS	WITHIN 4-5 YEARS	WITHIN 6 OR MORE YEARS
Fixed Rate Debt:					
Unsecured:					
MOPPRS (1).....	\$ 125,000	\$ -	\$ -	\$ -	\$ 125,000
Put Option Notes (2).....	100,000	-	-	-	100,000
Notes.....	706,500	-	246,500	110,000	350,000
Term Loan.....	-	-	-	-	-
Secured:					
Mortgages and loans payable.....	512,223	9,726	64,284	118,237	319,976
Total Fixed Rate Debt.....	1,443,723	9,726	310,784	228,237	894,976
Variable Rate Debt:					
Unsecured:					
Revolving Loan.....	199,500	-	199,500	-	-
Secured:					
Revolving Loan.....	4,409	4,409	-	-	-
Mortgage loan payable.....	27,726	246	23,822	3,658	-
Total Variable Rate Debt.....	231,635	4,655	223,322	3,658	-
Total Mortgages and Notes payable.....	\$ 1,675,358	\$ 14,381	\$ 534,106	\$ 231,895	\$ 894,976

(1) On February 2, 1998, the Operating Partnership sold \$125.0 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bear an interest rate of 6.835% from the date of issuance through January 31, 2003. After January 31, 2003, the interest rate to maturity on the MOPPRS will be 5.715% plus the applicable spread determined as of January 31, 2003. In connection with the initial issuance of the MOPPRS, a counter party was granted a remarketing option to purchase the MOPPRS from the holders thereof on January 31, 2003 at 100.0% of the principal amount. If the counter party elects not to exercise this option, the Operating Partnership would be required to repurchase the MOPPRS from the holders on January 31, 2003 at 100.0% of the principal amount plus accrued and unpaid interest.

(2) On June 24, 1997, a trust formed by the Operating Partnership sold \$100.0 million of Exercisable Put Option Securities due June 15, 2004 ("X-POS"), which represent fractional undivided beneficial interests in the trust. The assets of the trust consist of, among other things, \$100.0 million of Exercisable Put Option Notes due June 15, 2011 (the "Put Option Notes"), issued by the Operating Partnership. The Put Option Notes bear an interest rate of 7.19% from the date of issuance through June 15, 2004. After June 15, 2004, the interest rate to maturity on the Put Option Notes will be 6.39% plus the applicable spread determined as of June 15, 2004. In connection with the initial issuance of the Put Option Notes, a counter party was granted an option to purchase the Put Option Notes from the trust on June 15, 2004 at 100.0% of the principal amount. If the counter party elects not to exercise this option, the Operating Partnership would be required to repurchase the Put Option Notes from the Trust on June 15, 2004 at 100.0% of the principal amount plus accrued and unpaid interest.

The mortgage and loans payable and the secured revolving loan were secured by real estate assets with an aggregate carrying value of \$942.9 million at June 30, 2002.

The Operating Partnership's unsecured notes of \$931.5 million bear interest rates ranging from 6.8% to 8.1%, with interest payable semi-annually in arrears. The premium and discount related to the issuance of the unsecured notes is being amortized over the life of the respective notes as an adjustment to interest expense. All of the unsecured notes, except for the MOPPRS and Put Option Notes, are redeemable at any time prior to maturity at our option, subject to certain conditions including the payment of make-whole amounts.

We currently have a \$300.0 million unsecured revolving loan (with \$199.5 million outstanding at June 30, 2002) that matures in December 2003 and a \$55.2 million secured revolving loan (with \$4.4 million outstanding at June 30, 2002) that matures in March 2003. Our unsecured revolving loan also includes a \$150.0 million competitive sub-facility. Depending upon the corporate credit ratings assigned to us from time to time by the various rating agencies, our unsecured revolving loan bears variable rate interest at a spread above LIBOR ranging from 0.70% to 1.55% and our secured revolving loan bears variable rate interest at a spread above LIBOR ranging from 0.55% to 1.50%. We currently have a credit rating of BBB- assigned by Standard & Poor's, a credit rating of BBB assigned by Fitch Inc. and a credit rating of Baa2 assigned by Moody's Investor Service. As a result, interest currently accrues on borrowings under our unsecured revolving loan at an average rate of LIBOR plus 85 basis points and under our secured revolving loan at an average rate of LIBOR plus 75 basis points. In addition, we are currently required to pay an annual facility fee equal to .20% of the total commitment under the unsecured revolving loan.

The terms of each of our revolving loans and the indenture that governs our outstanding notes require us to comply with various operating and financial covenants and performance ratios. We are currently in compliance with all such requirements. In addition, based on our current expectation of future operating performance, we expect to remain in compliance for the foreseeable future.

Joint Ventures. During the past several years, we have formed various joint ventures with unrelated investors. We have retained minority equity interests ranging from 12.5% to 50.0% in these joint ventures. As required by GAAP, we have accounted for our joint venture activity using the equity method of accounting, as we do not control these joint ventures. As a result, the assets and liabilities of our joint ventures are not included on our balance sheet. As of June 30, 2002, our joint ventures have approximately \$566.5 million of outstanding debt. All of the joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) with respect to \$5.0 million of construction debt related to the MG-HIW Metrowest I, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Metrowest I, LLC debt represented 50.0% of the outstanding loan balance at June 30, 2002.

Interest Rate Hedging Activities. To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our two revolving loans bear interest at variable rates. Our long-term debt, which consists of long-term financings and the unsecured issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

The interest rate on all of our variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. Net payments made to counterparties under interest rate hedge contracts were \$415,051 during the six months ended June 30, 2002 and were recorded as additional interest expense.

Current and Future Cash Needs. Historically, rental revenue has been the principal source of funds to meet our short-term liquidity requirements, which primarily consist of operating expenses, debt service, stockholder distributions and ordinary course capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. We presently have no plans for major capital improvements to the existing properties except for the \$4.7 million renovation of Tampa Bay Park and the \$7.9 million general and non-recurring renovations at Country Club Plaza. In addition, we could incur tenant improvements and lease commissions related to any releasing of space currently leased by WorldCom and US Air (see "Recent Developments") and the redevelopment of the EPA site in Research Commons.

In addition to the requirements discussed above, our short-term (within the next 12 months) liquidity requirements also include the funding of approximately \$50.0 million of our existing development activity, including first generation tenant improvements and lease commissions on properties placed in service that are not

fully leased. See "Business - Development Activity." We expect to fund our short-term liquidity requirements through a combination of working capital, cash flows from operations and the following:

- . borrowings under our unsecured revolving loan (up to \$114.1 million of availability as of July 26, 2002);
- . borrowings under our secured revolving loan (up to \$49.4 million of availability as of July 26, 2002);
- . the selective disposition of non-core assets;
- . the sale or contribution of some of our wholly-owned properties, development projects and development land to strategic joint ventures to be formed with unrelated investors, which will have the net effect of generating additional capital through such sale or contributions; and
- . the issuance of secured debt (at June 30, 2002, we had \$2.8 billion of unencumbered real estate assets at cost).

Our long-term liquidity needs generally include the funding of existing and future development activity, selective asset acquisitions and the retirement of mortgage debt, amounts outstanding under the two revolving loans and long-term unsecured debt. We remain committed to maintaining a flexible capital structure. Accordingly, we expect to meet our long-term liquidity needs through a combination of (1) the issuance by the Operating Partnership of additional unsecured debt securities, (2) the issuance of additional equity securities by the Company and the Operating Partnership as well as (3) the sources described above with respect to our short-term liquidity. We expect to use such sources to meet our long-term liquidity requirements either through direct payments or repayment of borrowings under the unsecured revolving loan. We do not intend to reserve funds to retire existing secured or unsecured indebtedness upon maturity. Instead, we will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities.

We anticipate that our available cash and cash equivalents and cash flows from operating activities, with cash available from borrowings and other sources, will be adequate to meet our capital and liquidity needs in both the short and long term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions to stockholders discussed below and satisfy other cash payments may be adversely affected.

Distributions to Stockholders. To maintain its qualification as a REIT, the Company must distribute to stockholders at least 90.0% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the board of directors regarding distributions: (1) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (2) scheduled increases in base rents of existing leases; (3) changes in rents attributable to the renewal of existing leases or replacement leases; (4) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (5) operating expenses and capital replacement needs.

Share and Unit Repurchase Program. On April 25, 2001, we announced that the Company's Board of Directors authorized the repurchase of up to an additional 5.0 million shares of Common Stock and Common Units. As of July 26, 2002, under the new repurchase program, the Company had repurchased 1.4 million shares of Common Stock and Common Units at a weighted average purchase price of \$24.56 per share and a total purchase price of \$34.0 million. In determining whether or not to repurchase additional capital stock, we will consider, among other factors, the effect of repurchases on our liquidity and the price of our Common Stock.

Disposition Activity. As part of our ongoing capital recycling program, during the six months ended June 30, 2002, we have sold 856,000 square feet of office properties and 75 acres of development land for gross proceeds of \$120.2 million. In addition, we had 707,671 square feet of office properties and 99.4 acres of land under letter of intent or contract for sale in various transactions totaling \$79.9 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the third and fourth quarters of 2002. However, we can provide no assurance that all or parts of these transactions will be consummated.

During the second quarter, we recorded a \$9.9 million impairment reserve related to two properties we expect to sell and/or re-develop.

RECENT DEVELOPMENTS

WorldCom Bankruptcy. On July 21, 2002, WorldCom filed a voluntary petition with the United States Bankruptcy Court seeking relief under Chapter 11 of the United States Bankruptcy Code. We currently have 13 leases encompassing 986,082 square feet in nine locations with WorldCom and its affiliates, including four leases encompassing 828,467 square feet in four locations with Intermedia Communications, with lease expirations ranging from 2002 to 2013. Based on June 2002 rental revenue, our annualized rental revenue from these leases is \$17.5 million, or approximately 3.7% of our total annualized rental revenue. Approximately 185,000 square feet of the space leased by Intermedia has not yet been upfitted or occupied and we estimate that a substantial portion of the remaining Intermedia space currently appears to be under-utilized.

In addition, our joint venture with Miller Global ("MG-HIW, LLC") has 14 leases encompassing 57,252 square feet in five locations with WorldCom and its affiliates, including six leases encompassing 23,381 square feet in four locations with Intermedia Communications, with lease expirations ranging from 2002 to 2007. We have a 20.0% ownership in this joint venture and, based on June 2002 rental revenue, our proportionate share of the annualized rental revenue generated from these leases is \$278,100.

Approximately 81.0% of the annualized rental revenue related to our leases with WorldCom and its affiliates, including our pro rata share of the annualized rental revenue related to MG-HIW, LLC, is derived from properties in Tampa. The remainder of this revenue is derived from properties in Greenville, South Carolina, Richmond, Raleigh, Orlando and Nashville. WorldCom and its affiliates are current on base rental payments through August 31, 2002. However, we have written off approximately \$3.1 million of accrued straight-line rent receivables from WorldCom and its affiliates as of June 30, 2002.

Due to the inherent uncertainties of the bankruptcy process, we are not able to predict the impact of WorldCom's bankruptcy on its leasing and occupancy of our properties or on our financial condition and results of operations.

U.S. Airways Bankruptcy. On August 11, 2002, US Airways Group Inc. filed a voluntary petition with the United States Bankruptcy Court seeking relief under Chapter 11 of the United States Bankruptcy Code. We currently have seven leases encompassing 414,059 square feet with US Airways and its affiliates with an average remaining lease term of 5.4 years as of June 30, 2002. Based on June 2002 rental revenue, our annualized rental revenue from these leases is \$6.9 million, or approximately 1.5% of our total annualized rental revenue. Approximately 55,000 square feet of space is currently being sub-leased by US Airways to a third party and we estimate that the balance of the space is approximately 75 percent utilized by US Airways as a reservation call center and for certain revenue accounting and information technology functions. All of the 414,059 square feet of space is located in Winston-Salem, North Carolina.

US Airways is current on base rental payments through August 31, 2002. We have an accrued straight line rent receivable from US Airways in the amount of \$495,000 as of June 30, 2002.

Due to the inherent uncertainties of the bankruptcy process, we are not able to predict the impact of US Airways' bankruptcy on its leasing and occupancy of our properties or on our financial condition and results of operations.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment of disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS No. 121. We adopted SFAS No. 144 in the first quarter of 2002. Income from discontinued operations, net of minority interest and the gain on sale of discontinued operations, net of minority interest, for properties meeting the criteria in accordance with SFAS No. 144 are reflected in the consolidated statements of income as discontinued operations for all periods presented.

FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS

We consider funds from operations ("FFO") to be a useful financial performance measure of the operating performance of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate the ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operating, investing or financing activities as defined by GAAP. It should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all cash needs, including principal amortization, capital improvements and distributions to stockholders. Further, FFO as disclosed by other REITs may not be comparable to our calculation of FFO, as described below. FFO and cash available for distributions should not be considered as alternatives to net income as an indication of our performance or to cash flows as a measure of liquidity.

FFO equals income from continuing operations before minority interest (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of depreciable property and dividends paid to preferred shareholders, plus depreciation and amortization. In addition, FFO includes both recurring and non-recurring operating results and income from discontinued operations. As a result, non-recurring items that are not defined as "extraordinary" under GAAP are reflected in the calculation of FFO.

Cash available for distribution is defined as funds from operations increased by the amortization of deferred financing activities and reduced by rental income from straight-line rents and non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and cash available for distribution for the three and six month periods ended June 30, 2002 and 2001 are summarized in the following table (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
FUNDS FROM OPERATIONS:				
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item.....	\$ 22,619	\$ 34,824	\$ 51,867	\$ 70,862
Add/(Deduct):				
Dividends to preferred shareholders.....	(7,713)	(7,929)	(15,426)	(16,074)
Transition adjustment upon adoption of FAS 133.....	-	-	-	556
Income from discontinued operations.....	49	883	641	1,799
Gain on disposition of land.....	5,989	537	5,758	1,563
Depreciation and amortization.....	31,568	29,117	62,934	58,323
Depreciation on unconsolidated affiliates.....	2,149	1,912	4,633	3,904
Funds from operations.....	54,661	59,344	110,407	120,933
CASH AVAILABLE FOR DISTRIBUTION:				
Add/(Deduct):				
Rental income from straight-line rents.....	1,049	(3,550)	(1,318)	(6,652)
Amortization of deferred financing costs.....	341	675	680	1,340
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid.....	(2,370)	(2,014)	(3,121)	(3,087)
Second generation tenant improvements paid.....	(3,380)	(4,021)	(6,911)	(7,776)
Second generation lease commissions paid.....	(3,049)	(3,541)	(5,659)	(8,328)
Cash available for distribution.....	\$ 47,252	\$ 46,893	\$ 94,078	\$ 96,430
Weighted average shares/units outstanding - basic (2).....	60,363	61,571	60,316	62,826
Weighted average shares/units outstanding - diluted (2).....	60,849	61,962	60,767	63,215
DIVIDEND PAYOUT RATIOS:				
Funds from operations.....	65.1%	59.5%	64.4%	59.6%
Cash available for distribution.....	75.3%	75.3%	75.6%	74.7%

(1) Amounts represent cash expenditures.

(2) Assumes redemption of Common Units for shares of Common Stock. Minority interest Common Unit holders and the stockholders of the Company share equally on a per Common Unit and per share basis; therefore, the per share information is unaffected by conversion.

PROPERTY INFORMATION

The following table sets forth certain information with respect to our wholly owned in-service and development properties (excluding apartment units) as of June 30, 2002 and 2001:

	JUNE 30, 2002		JUNE 30, 2001	
	RENTABLE SQUARE FEET	PERCENT LEASED/ PRE-LEASED	RENTABLE SQUARE FEET	PERCENT LEASED/ PRE-LEASED
IN-SERVICE:				
Office	25,787,000	87%	24,639,000	93%
Industrial	10,468,000	84%	10,396,000	93%
Retail (1)	1,651,000	96%	1,628,000	95%
Total or Weighted Average	37,906,000	86%	36,663,000	93%
	=====	=====	=====	=====
DEVELOPMENT:				
Completed--Not Stabilized				
Office	735,000	29%	1,019,000	51%
Industrial	136,000	29%	184,000	21%
Retail	20,000	90%	--	--
Total or Weighted Average	891,000	30%	1,203,000	47%
	=====	=====	=====	=====
IN PROCESS				
Office (2)	201,000	70%	1,669,000	61%
Industrial (2)	60,000	0	258,000	9%
Retail	--	--	20,000	72%
Total or Weighted Average	261,000	54%	1,947,000	54%
	=====	=====	=====	=====
TOTAL:				
Office	26,723,000		27,327,000	
Industrial	10,664,000		10,838,000	
Retail (1)	1,671,000		1,648,000	
Total or Weighted Average	39,058,000		39,813,000	
	=====		=====	

(1) Excludes basement space

(2) Includes properties that we have an option to purchase.

The following table sets forth information concerning the 20 largest customers of our wholly-owned properties as of June 30, 2002 (\$ in thousands):

CUSTOMERS	NUMBER OF LEASES	RENTAL SQUARE FEET	ANNUALIZED RENTAL REVENUE (1)	PERCENT OF TOTAL ANNUALIZED RENTAL REVENUE (1)	AVERAGE REMAINING LEASE TERM IN YEARS
-----	-----	-----	-----	-----	-----
Intermedia Communications/ WorldCom.....	13	986,082	\$ 17,466	3.71%	8.1
AT&T.....	10	854,992	10,041	2.98	5.6
Federal Government.....	55	644,188	12,151	2.58	4.0
Capital One Services.....	6	587,188	10,199	2.17	6.1
IBM.....	5	354,507	7,899	1.68	6.5
Caterpillar Financial Services.....	1	300,901	7,899	1.68	12.7
PricewaterhouseCoopers.....	7	307,158	7,038	1.50	7.7
US Air.....	7	414,059	6,909	1.47	5.4
State of Georgia.....	9	349,690	6,485	1.38	6.0
Bell South.....	12	223,774	4,595	0.98	1.7
Sara Lee.....	8	1,184,134	4,404	0.94	3.0
Northern Telecom, Inc.....	2	283,298	3,921	0.83	4.7
Lockton Companies, Inc.....	1	127,485	3,117	0.66	12.7
Volvo.....	5	214,783	2,979	0.63	7.1
Bank of America.....	20	153,464	2,894	0.62	1.8
International Paper Co.....	10	121,174	2,887	0.61	0.5
Hartford Insurance.....	6	134,021	2,856	0.61	3.8
Business Telecom, Inc.....	4	145,497	2,832	0.60	2.8
Voicestream Wireless.....	2	120,561	2,765	0.59	4.0
Ford Motor Company.....	2	129,158	2,640	0.56	7.5
-----	-----	-----	-----	-----	-----
Total.....	185	7,636,114	\$ 125,977	26.78%	6.1
=====	=====	=====	=====	=====	=====

(1) Annualized rental revenue is June 2002 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

As of June 30, 2002, we were developing nine suburban office properties, two industrial properties and one retail property totaling 1.2 million rentable square feet of office and industrial space. The following table summarizes these development projects. In addition to the properties described in this table, we are developing with our joint venture partner two additional properties totaling 373,000 rentable square feet. At June 30, 2002, this development project had an aggregate anticipated total investment of \$80.7 million and was 51.0% pre-leased.

IN-PROCESS

NAME	MARKET	RENTABLE SQUARE FEET	ANTICIPATED TOTAL INVESTMENT	INVESTMENT AT 06/30/02	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION (3)
(\$ IN THOUSANDS)							
OFFICE:							
1825 Century Center	Atlanta	101,000	\$ 16,254	\$ 14,027	100%	3Q02	3Q02
801 Raleigh Corporate Center 2)	Research Triangle	100,000	12,016	5,757	40	4Q02	2Q04
In-Process Office Total or Weighted Average		201,000	\$ 28,270	\$ 19,784	70%		
INDUSTRIAL:							
Tradeport V (2)	Atlanta	60,000	\$ 2,913	\$ 484	0%	4Q02	4Q03
In-Process Industrial Total or Weighted Average		60,000	\$ 2,913	\$ 484	0%		
Total or Weighted Average of all In-Process Development Projects		261,000	\$ 31,183	\$ 20,268	54%		

(1) Letters of intent comprise 1% of the total pre-leasing percentage.

(2) We are developing these properties for a third party and own an option to purchase each property.

(3) We consider a development project to be stabilized on the date such project is at least 95% occupied.

COMPLETED--NOT STABILIZED (2)

NAME	MARKET	RENTABLE SQUARE FEET	ANTICIPATED		INVESTMENT AT 06/30/02	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION(3)
			TOTAL INVESTMENT					
(\$ IN THOUSANDS)								
OFFICE:								
Met Life Building								
At Brookfield	Greenville	115,000	\$	13,220	\$	12,101	95%	3Q01
Hickory Trace	Nashville	52,000		5,933		6,623	86	3Q01
1501 Highwoods								
Boulevard	Piedmont Triad	98,000		11,290		9,931	4	4Q01
Seven Springs I	Nashville	131,000		15,556		12,656	12	1Q02
Centre Green Four	Research Triangle	100,000		11,764		9,395	0	4Q01
GlenLake I	Research Triangle	158,000		22,417		18,812	14	4Q01
Shadow Creek II	Memphis	81,000		8,750		6,980	19	4Q01
Office Total								
or Weighted								
Average		735,000	\$	88,930	\$	76,498	29%	
		=====		=====		=====		
INDUSTRIAL:								
Newpont IV	Atlanta	136,000	\$	5,288	\$	4,626	29%	4Q01
Completed-Not								
Stabilized Industrial								
Total or Weighted								
Average		136,000	\$	5,288	\$	4,626	29%	
		=====		=====		=====		
RETAIL:								
Granada Shops	Kansas City	20,000	\$	5,020	\$	4,173	90%	4Q01
Completed-Not								
Stabilized Retail								
Total or Weighted								
Average		20,000	\$	5,020	\$	4,173	90%	
		=====		=====		=====		
Total or Weighted								
Average of all								
Completed-								
Not Stabilized								
Development Projects		891,000	\$	99,238	\$	85,297	30%	
		=====		=====		=====		
Total or Weighted								
Average of all								
Development Projects		1,152,000	\$	130,421	\$	105,565	36%	
		=====		=====		=====		

(1) Letters of intent comprise 1% of the total pre-leasing percentage.

(2) These properties contributed \$362,000 in Net Operating Income (Property Revenue less Property Expense) during the three months ended June 30, 2002.

(3) We consider a development project to be stabilized on the date such project is at least 95% occupied.

DEVELOPMENT ANALYSIS

	RENTABLE SQUARE FEET	ANTICIPATED TOTAL INVESTMENT	PRE-LEASING PERCENTAGE (1)
	-----	-----	-----
	(\$ IN THOUSANDS)		
SUMMARY BY ESTIMATED STABILIZATION DATE:			
Third Quarter 2002.....	268,000	\$ 35,407	95%
Fourth Quarter 2002.....	199,000	11,290	19%
First Quarter 2003.....	267,000	20,844	21%
Second Quarter 2003.....	258,000	39,201	9%
Fourth Quarter 2003.....	60,000	11,663	0%
Second Quarter 2004.....	100,000	12,016	40%
	-----	-----	-----
Total or Weighted Average.....	1,152,000	\$ 130,421	36%
	=====	=====	=====
SUMMARY BY MARKET:			
Atlanta.....	297,000	\$ 24,455	47%
Greenville.....	115,000	13,220	95%
Kansas City.....	20,000	5,020	90%
Memphis.....	81,000	8,750	19%
Nashville.....	183,000	21,489	33%
Piedmont Triad.....	98,000	11,290	4%
Research Triangle.....	358,000	46,197	17%
	-----	-----	-----
Total or Weighted Average.....	1,152,000	\$ 130,421	36%
	=====	=====	=====
Build-to-Suit.....	101,000	\$ 16,254	100%
Multi-Tenant.....	1,051,000	114,167	29%
	-----	-----	-----
Total or Weighted Average.....	1,152,000	\$ 130,421	36%
	=====	=====	=====
	AVERAGE RENTABLE SQUARE FEET	AVERAGE ANTICIPATED TOTAL INVESTMENT	AVERAGE PRE-LEASING (1)
	-----	-----	-----
	(\$ IN THOUSANDS)		
AVERAGE PER PROPERTY BY TYPE:			
Office.....	104,000	\$ 13,022	38%
Industrial.....	98,000	4,101	20%
Retail.....	20,000	5,020	90%
	-----	-----	-----
Weighted Average.....	96,000	\$ 10,868	36%
	=====	=====	=====

(1) Letters of intent comprise 1% of the total pre-leasing percentage.

The following table sets forth certain information about leasing activities at our wholly owned in-service properties (excluding apartment units) for the three months ended June 30 and March 31, 2002 and December 31 and September 30, 2001.

	OFFICE LEASING STATISTICS THREE MONTHS ENDED				
	6/30/02	3/31/02	12/31/01	9/30/01	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)...	162	110	116	135	131
Rentable square footage leased.....	874,467	417,102	437,454	630,043	589,767
Average per rentable square foot over the lease term:					
Base rent.....	\$ 16.86	\$ 16.83	\$ 17.85	\$ 17.03	\$ 17.14
Tenant improvements.....	(0.86)	(0.98)	(1.19)	(0.90)	(0.98)
Leasing commissions.....	(0.56)	(0.78)	(0.97)	(0.59)	(0.73)
Rent concessions.....	(0.14)	(0.15)	(0.11)	(0.11)	(0.13)
Effective rent.....	\$ 15.30	\$ 14.92	\$ 15.58	\$ 15.43	\$ 15.31
Expense stop(1).....	(5.17)	(5.17)	(4.50)	(4.54)	(4.85)
Equivalent effective net rent.....	\$ 10.13	\$ 9.75	\$ 11.08	\$ 10.89	\$ 10.46
Average term in years.....	4.1	4.1	4.6	4.5	4.3
CAPITAL EXPENDITURES RELATED TO RELEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases.....	\$ 3,481,988	\$ 2,031,231	\$ 2,647,115	\$ 2,431,063	\$ 2,647,849
Rentable square feet.....	874,467	417,102	437,454	630,043	589,767
Per rentable square foot.....	\$ 3.98	\$ 4.87	\$ 6.05	\$ 3.86	\$ 4.49
Leasing Commissions:					
Total dollars committed under signed leases.....	\$ 1,272,854	\$ 984,220	\$ 1,277,523	\$ 1,018,216	\$ 1,138,203
Rentable square feet.....	874,467	417,102	437,454	630,043	589,767
Per rentable square foot.....	\$ 1.46	\$ 2.36	\$ 2.92	\$ 1.62	\$ 1.93
Total:					
Total dollars committed under signed leases.....	\$ 4,754,842	\$ 3,015,450	\$ 3,924,637	\$ 3,449,279	\$ 3,786,052
Rentable square feet.....	874,467	417,102	437,454	630,043	589,767
Per rentable square foot.....	\$ 5.44	\$ 7.23	\$ 8.97	\$ 5.47	\$ 6.42
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs.....	\$ 16.85	\$ 16.45	\$ 16.47	\$ 16.27	\$ 16.51
Average first year cash rental rate (2).....	\$ 16.06	\$ 15.84	\$ 17.25	\$ 16.51	\$ 16.41
Percentage (decrease)/increase.....	(4.7)%	(3.8)%	4.7%	1.5%	(0.6)%

(1)"Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintenance) for which we will not be reimbursed by our tenants.

(2)First year cash rental rate is equal to base rent less concessions.

INDUSTRIAL LEASING STATISTICS THREE MONTHS ENDED

	6/30/02	3/31/02	12/31/01	9/30/01	Average
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)...	32	15	31	26	26
Rentable square footage leased.....	1,005,765	78,844	894,865	285,241	566,179
Average per rentable square foot over the lease term:					
Base rent.....	\$ 3.58	\$ 6.95	\$ 3.52	\$ 4.71	\$ 4.69
Tenant improvements.....	(0.29)	(1.10)	(0.24)	(0.38)	(0.50)
Leasing commissions.....	(0.14)	(0.21)	(0.10)	(0.11)	(0.14)
Rent concessions.....	(0.03)	--	--	--	(0.01)
Effective rent.....	\$ 3.12	\$ 5.64	\$ 3.18	\$ 4.22	\$ 4.04
Expense stop (1).....	(0.09)	(0.72)	(0.18)	(0.30)	(0.32)
Equivalent effective net rent.....	\$ 3.03	\$ 4.92	\$ 3.00	\$ 3.92	\$ 3.72
Average term in years.....	6.3	4.1	2.2	3.3	4.0
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases.	\$ 2,088,547	\$ 386,263	\$ 661,591	\$ 606,380	\$ 935,695
Rentable square feet.....	1,005,765	78,844	894,865	285,241	566,179
Per rentable square foot.....	\$ 2.08	\$ 4.90	\$ 0.74	\$ 2.13	\$ 1.65
Leasing Commissions:					
Total dollars committed under signed leases.	\$ 797,939	\$ 44,100	\$ 257,010	\$ 87,034	\$ 296,521
Rentable square feet.....	1,005,765	78,844	894,865	285,241	566,179
Per rentable square foot.....	\$ 0.79	\$ 0.56	\$ 0.29	\$ 0.31	\$ 0.52
Total:					
Total dollars committed under signed leases.	\$ 2,886,486	\$ 430,363	\$ 918,601	\$ 693,414	\$ 1,232,216
Rentable square feet.....	1,005,765	78,844	894,865	285,241	566,179
Per rentable square foot.....	\$ 2.87	\$ 5.46	\$ 1.03	\$ 2.43	\$ 2.18
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs..	\$ 3.61	\$ 6.99	\$ 3.58	\$ 4.85	\$ 4.76
Average first year cash rental rate (2).....	\$ 3.53	\$ 6.69	\$ 3.49	\$ 4.60	\$ 4.58
Percentage (decrease)/increase.....	(2.2)%	(4.2)%	(2.3)%	(5.1)%	(3.7)%

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintenance) for which we will not be reimbursed by our tenants.

(2) First year cash rental rate is equal to base rent less concessions.

RETAIL LEASING STATISTICS THREE MONTHS ENDED					
	6/30/02	3/31/02	12/31/01	9/30/01	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)...	13	12	12	9	12
Rentable square footage leased.....	52,527	59,649	26,019	40,283	44,620
Average per rentable square foot over the lease term:					
Base rent.....	\$ 18.15	\$ 25.66	\$ 15.75	\$ 16.33	\$ 18.97
Tenant improvements.....	(1.83)	(1.87)	(0.63)	(1.49)	(1.46)
Leasing commissions.....	(0.65)	(0.35)	(0.82)	(0.75)	(0.64)
Rent concessions.....	(0.03)	(0.02)	--	--	(0.01)
Effective rent.....	\$ 15.64	\$ 23.42	\$ 14.30	\$ 14.09	\$ 16.86
Expense stop (1).....	(1.02)	--	--	--	(0.26)
Equivalent effective net rent.....	\$ 14.62	\$ 23.42	\$ 14.30	\$ 14.09	\$ 16.60
Average term in years.....	7.0	6.5	6.7	8.8	7.2
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases..	\$ 1,077,825	\$ 738,605	\$ 148,860	\$ 526,500	\$ 622,948
Rentable square feet.....	52,527	59,649	26,019	40,283	44,620
Per rentable square foot.....	\$ 20.52	\$ 12.38	\$ 5.72	\$ 13.07	\$ 13.96
Leasing Commissions:					
Total dollars committed under signed leases..	\$ 151,268	\$ 61,981	\$ 73,314	\$ 196,296	\$ 120,715
Rentable square feet.....	52,527	59,649	26,019	40,283	44,620
Per rentable square foot.....	\$ 2.88	\$ 1.04	\$ 2.82	\$ 4.87	\$ 2.71
Total:					
Total dollars committed under signed leases..	\$ 1,229,093	\$ 800,586	\$ 222,174	\$ 722,796	\$ 743,662
Rentable square feet.....	52,527	59,649	26,019	40,283	44,620
Per rentable square foot.....	\$ 23.40	\$ 13.42	\$ 8.54	\$ 17.94	\$ 16.67
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs..	\$ 17.38	\$ 18.25	\$ 14.16	\$ 11.28	\$ 15.27
Average first year cash rental rate (2).....	\$ 25.30	\$ 23.54	\$ 16.24	\$ 14.82	\$ 19.97
Percentage increase.....	45.6%	28.9%	14.7%	31.4%	30.8%

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintenance) for which we will not be reimbursed by our tenants.

(2) First year cash rental rate is equal to base rent less concessions.

The following tables set forth scheduled lease expirations at our wholly owned in-service properties (excluding apartment units) as of June 30, 2002, assuming no tenant exercises renewal options.

OFFICE PROPERTIES:

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES

				(\$ IN THOUSANDS)		
2002 (2)	472	1,875,426	8.3%	\$ 33,142	\$ 17.67	8.5%
2003	553	3,399,318	15.1%	58,294	17.15	14.8%
2004	501	2,946,726	13.1%	53,133	18.03	13.6%
2005	436	3,123,080	13.9%	55,058	17.63	14.0%
2006	312	2,835,436	12.6%	51,286	18.09	13.1%
2007	135	1,587,833	7.1%	25,028	15.76	6.4%
2008	81	1,791,348	8.0%	28,668	16.00	7.3%
2009	23	720,140	3.2%	12,388	17.20	3.2%
2010	40	1,401,967	6.2%	25,465	18.16	6.5%
2011	38	1,320,434	5.9%	22,438	16.99	5.7%
Thereafter	115	1,493,851	6.6%	27,147	18.17	6.9%

	2,706	22,495,559	100.0%	\$ 392,047	\$ 17.43	100.0%
=====						

INDUSTRIAL PROPERTIES:

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES

				(\$ IN THOUSANDS)		
2002(2)	108	1,302,081	14.9%	\$ 6,455	\$ 4.96	15.9%
2003	85	1,068,830	12.2%	5,480	5.13	13.5%
2004	91	2,502,631	28.7%	9,625	3.85	23.8%
2005	52	1,006,248	11.5%	4,922	4.89	12.1%
2006	34	718,943	8.2%	3,852	5.36	9.5%
2007	23	1,230,906	14.1%	5,248	4.26	12.9%
2008	7	214,340	2.5%	1,404	6.55	3.5%
2009	7	273,813	3.1%	1,941	7.09	4.8%
2010	3	46,508	0.5%	340	7.31	0.8%
2011	1	33,555	0.4%	159	4.74	0.4%
Thereafter	19	344,575	3.9%	1,140	3.31	2.8%

	430	8,742,430	100.0%	\$ 40,566	\$ 4.64	100.0%
=====						

(1) Annual Rents Under Expiring Leases are June 2002 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

(2) Includes 196,000 square feet leases that are on a month to month basis or 0.7% of total annualized revenue

(3) Includes 188,000 square feet leases that are on a month to month basis or 0.2% of total annualized revenue

RETAIL PROPERTIES:

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
-----	-----	-----	-----	-----	-----	-----
				(\$ IN THOUSANDS)		
2002(2)	36	89,813	5.6%	\$ 1,236	\$ 13.76	3.3%
2003	36	94,516	5.9%	2,290	24.23	6.0%
2004	40	209,108	13.1%	2,776	13.28	7.3%
2005	39	93,505	5.9%	2,665	28.50	7.0%
2006	38	111,064	7.0%	2,768	24.92	7.3%
2007	30	120,487	7.6%	2,205	18.30	5.8%
2008	25	124,318	7.8%	4,293	34.53	11.3%
2009	21	168,355	10.6%	3,298	19.59	8.7%
2010	18	97,372	6.1%	2,856	29.33	7.5%
2011	19	108,418	6.8%	2,573	23.73	6.8%
Thereafter	26	375,696	23.6%	10,965	29.19	29.0%
	-----	-----	-----	-----	-----	-----
	328	1,592,652	100.0%	\$ 37,925	\$ 23.81	100.0%
	=====	=====	=====	=====	=====	=====

TOTAL:

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES(1)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
-----	-----	-----	-----	-----	-----	-----
				(\$ IN THOUSANDS)		
2002(3)	616	3,267,320	10.0%	\$ 40,833	\$ 12.50	8.7%
2003	674	4,562,664	13.9%	66,064	14.48	14.1%
2004	632	5,658,465	17.1%	65,534	11.58	14.0%
2005	527	4,222,833	12.9%	62,645	14.83	13.3%
2006	384	3,665,443	11.2%	57,906	15.80	12.3%
2007	188	2,939,226	9.0%	32,481	11.05	6.9%
2008	113	2,130,006	6.5%	34,365	16.13	7.3%
2009	51	1,162,308	3.5%	17,627	15.17	3.7%
2010	61	1,545,847	4.7%	28,661	18.54	6.1%
2011	58	1,462,407	4.5%	25,170	17.21	5.3%
Thereafter	160	2,214,122	6.7%	39,252	17.73	8.3%
	-----	-----	-----	-----	-----	-----
	3,464	32,830,641	100.0%	\$ 470,538	\$ 14.33	100.0%
	=====	=====	=====	=====	=====	=====

- (1) Annual Rents Under Expiring Leases are June 2002 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.
(2) Includes 27,000 square feet leases that are on a month to month basis or 0.0% of total annualized revenue
(3) Includes 413,000 square feet leases that are on a month to month basis or 1.0% of total annualized revenue

INFLATION

In the last five years, inflation has not had a significant impact on us because of the relatively low inflation rate in our geographic areas of operation. Most of the leases require the tenants to pay their share of increases in operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a description of our accounting policies and other information related to these financial instruments.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving loans bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

As of June 30, 2002, the Company had approximately \$231.7 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended June 30, 2003, our interest expense would be increased or decreased approximately \$2.3 million.

PART II--OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) During the second quarter of 2002, the Company issued 250,000 shares of Common Stock to a holder of Common Units in the Operating Partnership upon the redemption of such Common Units in a private offering exempt from the registration requirements pursuant to Section 4 (2) of the Securities Act. The holder of Common Units was an accredited investor under Rule 501 of the Securities Act, and the offering did not involve a general solicitation by the Company. The Company has registered the resale of such shares under the Securities Act.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 20, 2002, we held our Annual Meeting of Stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

MATTER	FOR	AGAINST	ABSTAIN
(A) Election of Directors			
Thomas W. Adler.....	41,346,366	--	1,046,476
Kay N. Callison.....	40,894,574	--	1,498,268
William E. Graham, Jr.....	41,326,524	--	1,066,318
Willard H. Smith Jr.....	40,900,430	--	1,492,412
John L. Turner.....	41,182,478	--	1,210,364
(B) Ratify appointment of Ernst & Young, LLP as independent auditors.....	41,509,062	755,952	129,618

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
10.1	Amended and Restated 1994 Stock Option Plan
99.1	Statement of Chief Executive Officer of Highwoods Properties Inc.
99.2	Statement of Chief Financial Officer of Highwoods Properties Inc.

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.

HIGHWOODS PROPERTIES, INC.

By: /s/ Ronald P. Gibson

Ronald P. Gibson
President and Chief Executive Officer

By: /s/ Carman J. Liuzzo

Carman J. Liuzzo
Chief Financial Officer
(Principal Accounting Officer)

Date: August 14, 2002

**HIGHWOODS PROPERTIES, INC.
AMENDED AND RESTATED 1994 STOCK OPTION PLAN**

SECTION 1. GENERAL PURPOSE OF THE PLAN: DEFINITIONS

The name of the plan is the Highwoods Properties, Inc. Amended and Restated 1994 Stock Option Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and directors of Highwoods Properties, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Award" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Phantom Stock and Restricted Stock Awards.

"Board" means the Board of Directors of the Company.

"Cause" means and shall be limited to a vote of the Board resolving that the participant should be dismissed as a result of (i) any material breach by the participant of any agreement to which the participant and the Company are parties, (ii) any act (other than retirement) or omission to act by the participant which may have a material and adverse effect on the business of the Company or any Subsidiary or on the participant's ability to perform services for the Company or any Subsidiary, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (iii) any material misconduct or neglect of duties by the participant in connection with the business or affairs of the Company or any Subsidiary.

"Change Of Control" is defined in Section 13.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Committee" means the Board or any Committee of the Board referred to in Section 2.

"Disability" means disability as set forth in Section 22(e)(3) of the Code.

"Effective Date" means the date on which the Plan is approved by the stockholders as set forth in Section 15.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the related rules, regulations and interpretations.

"Fair Market Value" on any given date means the last reported sale price at which the Shares are traded on such date or, if no Shares are traded on such date, the most recent date on which the Shares were traded, as reflected on the New York Stock Exchange or, if applicable, any other national stock exchange on which the Shares are traded.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Independent Director" means a member of the Board who is not also an employee of the Company or any Subsidiary. A director emeritus shall not be considered as an active Board member for purposes of this definition.

"Meeting Fees" means the fees paid by the Company to each Independent Director as compensation for attending meetings of the Board or any committee of the Board.

"Non-Employee Director" means a director who qualifies as such under Rule 16b-3(b)(3) promulgated under the Act or any successor definition under the Act.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or "Stock Option" means any option to purchase Shares granted pursuant to Section 5.

"Phantom Stock" means Awards granted pursuant to Section 8.

"Restricted Stock Award" means Awards granted pursuant to Section 5(c) or Section 7.

"Restricted Shares" means Shares subject to restrictions as provided in Section 7 and the subject of a Restricted Stock Award.

"Retainer Fee" means any annual fees paid by the Company to each Independent Director, including fees paid for service on a committee of the Board.

"Share" means one or more, respectively, of the Company's shares of common stock, par value \$.01 per share, subject to adjustments pursuant to Section 3.

"Stock Appreciation Rights" ("SARS") means Awards granted pursuant to Section 6.

"Subsidiary" means Highwoods Services, Inc. and any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company, if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

SECTION 2. ADMINISTRATION OF PLAN: COMMITTEE AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS

(a) Committee. Except as set forth in Section 2(c), the Plan shall be administered by the executive compensation committee of the Board, or any other committee of not less than two Non-Employee Directors performing similar functions, as appointed by the Board from time to time. Only Non-Employee Directors may vote with respect to transactions involving an award or other acquisition from the Company.

(b) Powers of Committee. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select participants to whom Awards may be granted from time to time;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Phantom Stock, and Restricted Stock Awards, or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of Shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(iii), to extend the period in which Stock Options may be exercised;

(vii) to determine whether, to what extent, and under what circumstances Shares and other amounts payable with respect to an Award shall be deferred either automatically

or at the election of the participant and whether and to what extent the Company shall pay or credit amounts constituting interest (at rates determined by the Committee) or dividends or deemed dividends on such deferrals; and

(viii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Awards (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. SHARES AVAILABLE UNDER THE PLAN; MERGERS; SUBSTITUTIONS

(a) Shares Issuable. The maximum number of Shares reserved and available for issuance under the Plan shall be 6,000,000 Shares of which not more than 600,000 Shares may be Restricted Shares granted as provided in Section 5(c) or

Section 7 hereof. For purposes of this limitation, the Shares underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Shares or otherwise terminated (other than by exercise) shall be added back to the Shares available for issuance under the Plan so long as the participants to whom such Awards had been previously granted received no benefits of ownership of the underlying Shares to which the Award related. Subject to such overall limitation, Shares may be issued up to such maximum number pursuant to any type or types of Award, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued Shares or Shares reacquired by the Company.

(b) Stock Dividends, Mergers, Etc. In the event of a stock dividend, stock split or similar change in capitalization affecting the Shares, the Committee shall make appropriate adjustments in (i) the number and kind of stock or securities on which Awards may thereafter be granted, (ii) the number and kind of stock or securities remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such stock or securities. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of Shares reserved for issuance under the Plan and the number and purchase price (if any) of Shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances).

(c) Substitute Awards. The Committee may grant Awards under the Plan in substitution for stock and stock-based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

SECTION 4. ELIGIBILITY

Participants in the Plan will be such directors, full or part-time officers and other employees of the Company and its Subsidiaries who are responsible for or contribute to the management, growth, or profitability of the Company and its Subsidiaries and who are selected from time to time by the Committee, in its sole discretion.

SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. To the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after June 16, 2004.

(a) Stock Options Granted to Employees. The Committee in its discretion may grant Stock Options to employees of the Company or any Subsidiary. Stock Options granted to employees pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(i) Exercise Price. The exercise price per share for the Shares covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall not be less than 100% of Fair Market Value on the date of grant. Notwithstanding the foregoing, with respect to Non-Qualified Stock Options which are granted in lieu of cash bonus, the exercise price per share shall not be less than 50% of the Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option shall not be less than 110% of Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the Option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) Exercisability; Rights of a Stockholder. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to Shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of Shares to be purchased. Payment of the purchase price may be made by one or more of the following methods or by such other method as the Committee may allow:

(A) In cash, by certified or bank check or other instrument acceptable to the Committee;

(B) In the form of Shares that are not then subject to restrictions under any Company plan and that have been held by the optionee for at least six months, if permitted by the Committee in its discretion. Such surrendered Shares shall be valued at Fair Market Value on the exercise date; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

The delivery of certificates representing the Shares to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such Shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions or laws.

(v) Non-Transferability of Options. No Stock Option shall be transferable by

the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(vi) Termination By Reason of Death. If any optionee's employment by the Company and its Subsidiaries terminates by reason of death, the Stock Option may thereafter be exercised, to the extent exercisable at the date of death, by the legal representative or legatee of the optionee, for a period of six months (or such longer periods as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Option, if earlier.

(vii) Termination By Reason of Disability.

(A) Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of six months (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(B) The Committee shall have sole authority and discretion to determine whether a participant's employment has been terminated by reason of Disability.

(C) Except as otherwise provided by the Committee at the time of grant the death of an optionee during a period provided in this Section 5(a) (vii) for the exercise of a Non-Qualified Stock Option, shall extend such period of six months from the date of death, subject to termination on the expiration of the stated term of the Option, if earlier.

(viii) Termination for Cause. If any optionee's employment by the Company and its Subsidiaries has been terminated for Cause, any Stock Option held by such optionee shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Stock Option can be exercised for a period of up to 30 days from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(ix) Other Termination. Unless otherwise determined by the Committee, if an optionee's employment by the Company and its Subsidiaries terminate for any reason other than death, Disability, or for Cause, any Stock Option held by such optionee may thereafter be exercised, to the extent it was exercisable on the date of termination of employment for three months (or such longer period as the Committee shall specify at any time) from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(x) Annual Limit On Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its Subsidiaries become

exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000.

(xi) Form of Settlement. Shares issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

(b) Reload Options. At the discretion of the Committee, Options granted under Section 5(a) may include a so-called "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of Shares in accordance with Section 5(a)(iv)(B) hereof would automatically be granted additional Options (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with the same expiration date as the original Option being exercised, and with such other terms as the Committee may provide) to purchase that number of Shares equal to the number delivered to exercise the original Option.

(c) Restricted Shares and Stock Options Granted to Independent Directors.

(i) Automatic Grant of Options. Each Independent Director shall automatically be granted a Non-Qualified Stock Option to purchase 10,000 Shares upon assuming his or her position on the Board. The exercise price per Share for the Shares covered by a Stock Option granted pursuant to this Section 5(c)(i) shall be equal to, (x) as to each Independent Director serving on the Board on the date of the initial public offering, the initial public offering price and,

(y) as to each Independent Director elected to serve on the Board subsequent to the initial public offering, the Fair Market Value of a single Share on the date the Stock Option is granted.

(ii) Discretionary Grant of Restricted Shares or Options. Commencing January 1, 1996, the Committee in its discretion may grant Restricted Shares (subject to the provisions of Section 7 hereof) or Non-Qualified Stock Options in addition to those Non-Qualified Stock Options automatically awarded pursuant to Section 5(c)(i). The exercise price per Share for the Shares covered by a Stock Option granted pursuant to this Section 5(c)(ii) shall not be less than the Fair Market Value of a single Share on the date the Stock Option is granted.

(iii) Grant of Options or Restricted Shares in Lieu of Cash For Retainer Fee and Meeting Fees.

(A) Each Independent Director may elect to defer 0%, 50% or 100% of his Retainer Fee and/or Meeting Fees for each calendar year (commencing calendar year 1997) for the application of that amount towards either the grant of Stock Options or Restricted Shares as set forth in Section 5(c)(iii)(B). On or before December 31 of the year preceding the calendar year for which the fees apply, each Independent Director shall make an irrevocable election in writing on a Notice of Election attached hereto as "Exhibit A", or such other form as may be approved by the Committee, to receive Stock Options or Restricted Shares in lieu of all or a designated percentage of his Retainer Fee and/or Meeting Fees.

(B) The number of Stock Options issuable in accordance with this Section 5(c)(iii) with respect to the elected portion of an Independent Director's Retainer Fee and the elected portion of an Independent Director's Meeting Fees will be equal to the amount of the deferred fees divided by 25% of the Fair Market Value of a Share on the date of the grant. The number of shares of Restricted Shares issuable in accordance with this Section 5(c)(iii) with respect to the elected portion of an Independent Director's Retainer Fee and the elected portion of an Independent Director's Meeting Fees will be equal to the amount of the deferred fees divided by 250% of the Fair Market Value of a Share on the date of the grant.

(C) Fractional Options or Shares shall not be granted under this Section 5(c)(iii) and any remaining amount of elected Retainer Fees and Meeting Fees will be paid to each Independent Director in cash, on the date or dates Option or Restricted Stock Award grants are made in accordance with this Section 5(c)(iii).

(D) The price at which a Share may be purchased under an Option granted pursuant to this Section 5(c) (iii) shall be equal to 75% of the Fair Market Value of a Share on the date of the grant.

(iv) Exercise; Termination; Non-Transferability; Vesting.

(A) Except as provided in Section 13, no Option granted under Section 5(c)(i) may be exercised before the first anniversary of the date upon which it was granted. The Shares subject to such Options granted under Section 5(c)(i) shall become exercisable in 25% increments on each anniversary of the date of grant beginning with the first such anniversary such that 100% of the Shares subject to an Option shall be exercisable on or after the fourth anniversary of the date of grant; provided, however, that the Independent Director who has received a grant under Section 5(c)(i) must be a member of the Board on any such anniversary date. The term and exercisability of each Option granted under Section 5(c)(ii) shall be fixed by the Committee. Options granted pursuant to Section 5(c)(iii) become exercisable six months from the date of grant; provided, however, that the Independent Director who has received a grant under Section 5(c)(iii) must be a member of the Board on such date. No Option issued under Section 5(c) shall be exercisable after the expiration of 10 years from the date such Option is granted.

(B) The rights of an Independent Director in an Option granted under Section 5(c)(i) and 5(c)(ii) shall terminate six months after such director ceases to be a director of the Company or the specified expiration date, if earlier; provided, however, that if the Independent Director ceases to be a director for Cause, the rights shall terminate immediately on the date on which he ceases to be a director. The rights of an Independent Director in an Option granted under Section 5(c)(iii) shall terminate three years after such director ceases to be a director of the Company or the specified expiration date, if earlier; provided, however, that if and when an Independent Director becomes inactive or becomes a director emeritus, Options previously granted pursuant to Section 5(c)(iii) shall remain exercisable the same as if the

inactive director or director emeritus was at all times an active Independent Director.

(C) No Stock Option granted under this Section 5(c) shall be transferable by the optionee otherwise than by Will or by the laws of descent and distribution, and such Options shall be exercisable, during the optionee's lifetime only by the optionee. Any Option granted to an Independent Director pursuant to Section 5(c)(i) and 5(c)(ii) and outstanding on the date of his death may be exercised by the legal representative or legatee of the optionee for a period of six months from the date of death or until the expiration of the stated term of the Option, if earlier. Any Option granted to an Independent Director pursuant to Section 5(c)(iii) and outstanding on the date of his death may be exercised by the legal representative or legatee of the optionee for a period of three years from the date of death or until the expiration of the stated term of the Option, if earlier.

(D) Options granted under this Section 5(c) may be exercised only by written notice to the Company specifying the number of Shares to be purchased. Payment of the full purchase price of the Shares to be purchased may be made by one or more of the methods specified in Section 5(a)(iv). An optionee shall have the rights of a stockholder only as to Shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(E) Subject to the immediately following sentence, no Restricted Shares granted under Section 5(c)(iii) may be sold, assigned, transferred, pledged or otherwise encumbered or disposed of and in the event that the Independent Director is no longer a director (whether an Independent Director or not) of the Company for any reason (including death, retirement, Disability or for Cause), the Company shall have the right, at the discretion of the Committee, to require forfeiture to the Company of such Restricted Shares from the participant or the participant's legal representative, which right of forfeiture must be exercised not later than the 90th day following the date such person ceased to be a director. Notwithstanding the immediately foregoing sentence, the Restricted Shares granted under Section 5(c)(iii) shall vest, and shall no longer be subject to the Company's forfeiture right or the non-transferability restrictions in this Section 5(c)(iv)(E), six months after the date of grant, provided that the participant must be a member of the Board on such vesting date in order for vesting to occur. A recipient of Restricted Shares granted under Section 5(c)(iii) shall have all of the rights of a stockholder with respect to the Restricted Shares including voting and dividend rights, subject to the non-transferability restrictions and Company forfeiture rights described above in this Section 5(c)(iv)(E). Unless the Committee shall otherwise determine, certificates evidencing Restricted Shares issued pursuant to Section 5(c)(iii) shall remain in the possession of the Company until such Shares are vested as provided above. The vesting and other terms of Restricted Shares issued pursuant to Section 5(c)(ii) shall be fixed by the Committee and subject to and in accordance with Section 7.

(v) Limited to Independent Directors. The provisions of this Section 5(c) shall apply only to Options and Restricted Shares granted or to be granted to Independent Directors, and shall not be deemed to modify, limit or otherwise apply to any other provision of this Plan or

to any Option or Restricted Shares issued under this Plan to a participant who is not an Independent Director of the Company. To the extent inconsistent with the provisions of any other Section of this Plan, the provisions of this Section 5(c) shall govern the rights and obligations of the Company and Independent Directors respecting Options and Restricted Shares granted or to be granted to Independent Directors. The provisions of this Section 5(c) which affect the price, date of exercisability, vesting, option period or amount of Shares under an Option or with respect to Restricted Shares shall not be amended more than once in any six-month period, other than to comport with changes in the Code or ERISA.

SECTION 6. STOCK APPRECIATION RIGHTS

The Committee may from time to time grant SARs unrelated to Options or related to Options or portions of Options granted to participants under the Plan. Each SAR shall be evidenced by a written instrument and shall be subject to such terms and conditions as the Committee may determine. Subject to such terms and conditions established by the Committee the participant may exercise an SAR or portion thereof, and thereupon shall be entitled to receive payment of an amount equal to the aggregate appreciation in value of the Shares as to which the SAR is awarded, as measured by the difference between the purchase price of such Shares and their Fair Market Value at the date of exercise. Such payments may be made in cash, in Shares valued at Fair Market Value as of the date of exercise, or in any combination thereof, as the Committee in its discretion shall determine.

SECTION 7. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Award. The Committee may grant Restricted Stock Awards to any participant under the Plan. A Restricted Stock Award is an Award entitling the recipient to acquire, at no cost or for a purchase price determined by the Committee, Shares subject to such restrictions and conditions as the Committee may determine at the time of grant. Conditions may be based on continuing employment and/or achievement of pre-established performance goals and objectives.

(b) Acceptance of Award. A participant who is granted a Restricted Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within 60 days (or such shorter date as the Committee may specify) following the award date by making payment to the Company, if required, by certified or bank check or other instrument or form of payment acceptable to the Committee in an amount equal to the specified purchase price, if any, of the Shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions of the Restricted Shares in such form as the Committee shall determine.

(c) Rights as a Stockholder. Upon complying with Section 7(b) above, a participant shall have all the rights of a stockholder with respect to the Restricted Shares including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or

forfeiture rights described in this Section 7 and subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Committee shall otherwise determine, certificates evidencing the Restricted Shares shall remain in the possession of the Company until such Shares are vested as provided in Section 7(e) below.

(d) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Subsidiaries, or in the case of Independent Directors, an Independent Director ceases to be a director, for any reason (including death, retirement, Disability, or for Cause), the Company shall have the right, at the discretion of the Committee, to repurchase at their original purchase price as established at Section 7(a) above Restricted Shares with respect to which conditions have not lapsed, or to require forfeiture of such Shares to the Company if acquired at no cost, from the participant or the participant's legal representative. The Company must exercise such right of repurchase or forfeiture not later than the 90th day following such termination of employment (unless otherwise specified in the written instrument evidencing the Restricted Stock Award).

(e) Vesting of Restricted Shares. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the Shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

(f) Waiver, Deferral and Reinvestment of Dividends. The written instrument evidencing the Restricted Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Shares.

SECTION 8. PHANTOM STOCK

The Committee may from time to time grant Phantom Stock Awards to any participant under the Plan. Each Phantom Stock Award shall be evidenced by a written instrument and shall be subject to such terms and conditions as the Committee may determine. Subject to such terms and conditions as may be established by the Committee, the participant may exercise a Phantom Stock Award or portion thereof, and thereupon shall be entitled to receive payment of an amount equal to the Fair Market Value at the date of exercise of the Shares as to which the Phantom Stock is awarded. Such payments may be made in cash, in Shares valued at Fair Market Value as of the date of exercise, or in any combination thereof, as the Committee in its discretion shall determine.

SECTION 9. TAX WITHHOLDING

(a) Payment by Participant. Each participant shall, no later than the date as of which

the value of an Award of any Shares or other amounts received thereunder first becomes includable in the gross income of the participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) **Payment in Shares.** A participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from the Shares to be issued pursuant to any Award a number of Shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company Shares owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. With respect to any participant who is subject to Section 17 of the Act, the following additional restrictions shall apply:

(A) the election to satisfy tax withholding obligations relating to an Award in the manner permitted by this Section 9(b) shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of revenues of the Company and ending on the twelfth business day following such date, or (2) at least six months prior to the date as of which the receipt of such Award first becomes a taxable event for federal income tax purposes;

(B) such election shall be irrevocable;

(C) such election shall be subject to the consent or disapproval of the Committee; and

(D) the Shares withheld to satisfy tax withholding must pertain to an Award which has been outstanding for at least six months.

SECTION 10. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purposes approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 11. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Committee may, at any time, amend or cancel any outstanding Award (or provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award as if it were then initially granted under this Plan) for the purpose of satisfying changes in law without the holder's consent. To the extent required by the Code to ensure that Options granted hereunder qualify as Incentive Stock Options and to the extent required by the Act to ensure that Awards and Options granted under the Plan are exempt under Rule 16b-3 promulgated under the Act, Plan amendments shall be subject to approval by the Company's stockholders. Notwithstanding anything herein to the contrary, neither the Board nor the Committee may reduce the exercise or purchase price of any outstanding Award without stockholder approval.

SECTION 12. STATUS OF PLAN

With respect to the portion of any Award which has not been exercised and any payments in cash, Shares or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Shares or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provisions of the foregoing sentence.

SECTION 13. CHANGE OF CONTROL PROVISIONS

Upon the occurrence of a Change of Control as defined in this Section 13:

- (a) Each outstanding Stock Option shall automatically become fully exercisable notwithstanding any provision to the contrary herein.
- (b) Restrictions and conditions on Restricted Stock Awards shall automatically be deemed waived, and the recipients of such Awards shall become entitled to receipt of the Shares subject to such Awards unless the Committee shall otherwise expressly provide at the time of grant.
- (c) "Change of Control" shall mean the occurrence of any one of the following events:
 - (i) any "person," as such term is used in Section 13(d) and 14(d) of the Act (other than the Company, any of its Subsidiaries, any trustee, fiduciary or other person or entity

holding securities under any employee benefit plan of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 40% or more of either (A) the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board of Directors ("Voting Securities") or (B) the then outstanding Shares of the Company (in either such case other than as a result of acquisition of securities directly from the Company); or

(ii) persons who, as of May 1, 1994, constitute the Company's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to May 1, 1994 whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Plan, be considered an Incumbent Director; or

(iii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company or any Subsidiary where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13D-3 under the Act), directly or indirectly, shares representing in the aggregate 50% of the voting shares of the corporation issuing cash securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by an party as a single plan) of all or substantially all of the assets of the Company or

(C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of Shares or other Voting Securities outstanding, increases (x) the proportionate number of Shares beneficially owned by any person to 40% or more of the Shares then outstanding or (y) the proportionate voting power represented by the Voting Securities beneficially owned by any person to 40% or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional Shares or other Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change of Control" shall be deemed to have occurred for purposes of the foregoing clause (i).

SECTION 14. GENERAL PROVISIONS

(a) No Distribution: Compliance With Legal Requirements. The Committee may require each person acquiring Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to distribution thereof.

No Shares shall be issued pursuant to an Award until all applicable securities laws and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop-orders and restrictive legends on certificates for Shares and Awards as it deems appropriate.

(b) Delivery of Stock Certificates. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) Other Compensation Arrangements: No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 15. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the holders of a majority of the Shares of the Company present or represented and entitled to vote at a meeting of stockholders.

SECTION 16. GOVERNING LAW

This Plan shall be governed by North Carolina law except to the extent such law is preempted by federal law.

Exhibit 99.1

**STATEMENT OF CHIEF EXECUTIVE OFFICER OF
HIGHWOODS PROPERTIES, INC.**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Gibson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald P. Gibson

Ronald P. Gibson
President and Chief Executive Officer
August 14, 2002

**STATEMENT OF CHIEF FINANCIAL OFFICER OF
HIGHWOODS PROPERTIES, INC.**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carman J. Liuzzo, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Carman J. Liuzzo

Carman J. Liuzzo
Vice President and Chief Financial Officer
August 14, 2002

End of Filing

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