

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

Filed 8/7/2003 For Period Ending 6/30/2003

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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, 2003

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 ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in rule 12b-2 of the Securities Exchange Act). Yes ☒ No ☐

The Company has only one class of common stock, par value \$0.01 per share, with 53,071,512 shares outstanding as of July 31, 2003.

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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, statement 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 2002 Annual Report on Form 10-K.

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HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(\$ in thousands)

	June 30, 2003	December 31, 2002
	(Unaudited)	
Assets:		
Real estate assets, at cost:		
Land and improvements	\$ 383,520	\$ 386,051
Buildings and tenant improvements	2,808,274	2,792,306
Development in process	9,499	6,729
Land held for development	172,153	162,762
Furniture, fixtures and equipment	21,223	20,966
	<u>3,394,669</u>	<u>3,368,814</u>
Less—accumulated depreciation	(503,077)	(455,337)
Net real estate assets	<u>2,891,592</u>	<u>2,913,477</u>
Property held for sale	201,143	221,720
Cash and cash equivalents	13,025	11,017
Restricted cash	3,163	8,582
Accounts receivable, net of allowance	13,902	13,578
Notes receivable	27,617	31,057
Accrued straight-line rents receivable	51,703	48,777
Investment in unconsolidated affiliates	76,499	79,504
Other assets:		
Deferred leasing costs	100,462	97,143
Deferred financing costs	42,544	26,120
Prepaid expenses and other	16,882	15,295
	<u>159,888</u>	<u>138,558</u>
Less—accumulated amortization	(76,499)	(70,901)
Other assets, net	<u>83,389</u>	<u>67,657</u>
Total Assets	<u>\$3,362,033</u>	<u>\$3,395,369</u>
Liabilities and Stockholders' Equity:		
Mortgages and notes payable	\$1,579,265	\$1,528,720
Accounts payable, accrued expenses and other liabilities	102,949	120,614
	<u>1,682,214</u>	<u>1,649,334</u>
Total Liabilities	1,682,214	1,649,334
Minority interest	177,104	188,563
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, 2003 and December 31, 2002	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, 2003 and December 31, 2002	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, 2003 and December 31, 2002	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; 53,071,768 and 53,400,195 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	531	534
Additional paid-in capital	1,383,568	1,390,043
Distributions in excess of net earnings	(245,751)	(197,647)
Accumulated other comprehensive loss	(7,831)	(9,204)
Deferred compensation	(5,247)	(3,699)
	<u>1,502,715</u>	<u>1,557,472</u>
Total Stockholders' Equity	<u>1,502,715</u>	<u>1,557,472</u>

Total Liabilities and Stockholders' Equity	<u>\$3,362,033</u>	<u>\$3,395,369</u>
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See accompanying notes to consolidated financial statements.

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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,	
	2003	2002	2003	2002
Rental revenue	\$ 105,659	\$ 107,863	\$ 211,629	\$ 221,108
Operating expenses:				
Rental property	36,870	34,248	73,524	69,733
Depreciation and amortization	32,412	28,955	64,856	57,666
Interest expense:				
Contractual	27,822	26,687	55,496	52,291
Amortization of deferred financing costs	757	341	1,383	680
	28,579	27,028	56,879	52,971
General and administrative includes \$3,514 and \$3,700 of nonrecurring compensation expense in the three and six months ended June 30, 2002, respectively	6,524	9,047	11,868	14,403
Total operating expenses	104,385	99,278	207,127	194,773
Other income:				
Interest and other income	3,229	2,695	6,116	6,033
Equity in (loss)/earnings of unconsolidated affiliates	(485)	2,475	1,276	5,039
	2,744	5,170	7,392	11,072
Income before gain on disposition of land and depreciable assets, minority interest and discontinued operations	4,018	13,755	11,894	37,407
Gain on disposition of land	1,412	5,989	2,275	5,757
Gain on disposition of depreciable assets	220	4,203	240	5,379
Income before minority interest and discontinued operations	5,650	23,947	14,409	48,543
Minority interest	(656)	(2,851)	(1,702)	(5,845)
Income from continuing operations	4,994	21,096	12,707	42,698
Discontinued operations:				
Income from discontinued operations, net of minority interest	3,781	4,768	7,410	10,038
Gain on sale of discontinued operations, net of minority interest	1,345	1,886	1,175	1,886
	5,126	6,654	8,585	11,924
Net income	10,120	27,750	21,292	54,622
Dividends on preferred shares	(7,713)	(7,713)	(15,426)	(15,426)
Net income available for common stockholders	\$ 2,407	\$ 20,037	\$ 5,866	\$ 39,196
Net income per common share—basic:				
(Loss)/income from continuing operations	\$ (0.05)	\$ 0.25	\$ (0.05)	\$ 0.51
Income from discontinued operations	0.10	0.12	0.16	0.22
Net income	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73
Weighted average common shares outstanding—basic	53,270	53,205	53,349	53,060
Net income per common share—diluted:				
(Loss)/income from continuing operations	\$ (0.05)	\$ 0.25	\$ (0.05)	\$ 0.51
Income from discontinued operations	0.10	0.12	0.16	0.22
Net income	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73

Weighted average common shares outstanding—diluted	53,315	53,691	53,395	53,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Distributions declared per common share	\$ 0.425	\$ 0.585	\$ 1.01	\$ 1.17
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements

HIGHWOODS PROPERTIES, INC.
Consolidated Statement of Stockholders' Equity
For the Six Months Ended June 30, 2003

(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	Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2002	53,400,195	\$ 534	\$ 104,945	\$ 172,500	\$ 100,000	\$ 1,390,043	\$ (3,699)	\$ (9,204)	\$ (197,647)	\$1,557,472
Issuance of Common Stock	20,562	—	—	—	—	407	—	—	—	407
Common Stock Dividends	—	—	—	—	—	—	—	—	(53,970)	(53,970)
Preferred Stock Dividends	—	—	—	—	—	—	—	—	(15,426)	(15,426)
Issuance of restricted stock	97,611	1	—	—	—	2,082	(2,083)	—	—	—
Repurchase of Common Stock	(446,600)	(4)	—	—	—	(9,273)	—	—	—	(9,277)
Fair value of stock options issued	—	—	—	—	—	309	(309)	—	—	—
Amortization of deferred compensation	—	—	—	—	—	—	844	—	—	844
Other comprehensive income	—	—	—	—	—	—	—	1,373	—	1,373
Net Income	—	—	—	—	—	—	—	—	21,292	21,292
Balance at June 30, 2003	53,071,768	\$ 531	\$ 104,945	\$ 172,500	\$ 100,000	\$ 1,383,568	\$ (5,247)	\$ (7,831)	\$ (245,751)	\$1,502,715

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC. Consolidated Statements of Cash Flows (Unaudited and \$ in thousands)

	Six Months Ended June 30,	
	2003	2002
Operating activities:		
Income from continuing operations	\$ 12,707	\$ 42,698
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	64,856	57,666
Amortization of deferred compensation	844	647
Amortization of deferred financing costs	1,383	680
Amortization of accumulated other comprehensive loss	898	770
Equity in earnings of unconsolidated affiliates	(1,276)	(5,039)
Minority interest	1,702	5,845
Gain on disposition of land and depreciable assets	(2,515)	(11,136)
Reserve for accrued straight-line rent receivable	—	3,110
Discontinued operations	9,572	16,670
Changes in operating assets and liabilities	(14,298)	(14,221)
Net cash provided by operating activities	<u>73,873</u>	<u>97,690</u>
Investing activities:		
Additions to real estate assets	(56,443)	(63,268)
Proceeds from disposition of real estate assets	30,639	120,200
Distributions from unconsolidated affiliates	7,064	5,301
Investments in notes receivable	5,155	11,080
Other investing activities	(38)	(6,514)
Net cash (used in)/provided by investing activities	<u>(13,623)</u>	<u>66,799</u>
Financing activities:		
Distributions paid on common stock and common units	(60,811)	(69,984)
Dividends paid on preferred stock	(15,426)	(15,426)
Net proceeds from the sale of common stock	407	4,821
Repurchase of common stock and common units	(16,688)	(2,762)
Borrowings on revolving loans	129,500	174,500
Repayment of revolving loans	(91,500)	(203,500)
Borrowings on mortgages and notes payable	2,190	13,403
Repayment of mortgages and notes payable	(7,455)	(55,973)
Net change in deferred financing costs	1,541	4,050
Net cash used in financing activities	<u>(58,242)</u>	<u>(150,871)</u>
Net increase in cash and cash equivalents	2,008	13,618
Cash and cash equivalents at beginning of the period	11,017	576
Cash and cash equivalents at end of the period	<u>\$ 13,025</u>	<u>\$ 14,194</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 59,116</u>	<u>\$ 60,590</u>

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 assets contributed by the holders of Common Units in the Operating Partnership, the assets acquired subject to mortgage notes payable and other non-cash transactions:

	Six Months Ended June 30,	
	2003	2002
Assets:		
Net real estate assets	\$ (2,753)	\$ 36,828
Cash and cash equivalents	—	1,114
Accounts receivable	1,776	139
Notes receivable	1,715	500
Investments in unconsolidated affiliates	2,745	—
Deferred leasing costs	—	995
Deferred financing costs	17,810	—
	<u>\$ 21,293</u>	<u>\$ 39,576</u>
Liabilities:		
Mortgages and notes payable	17,810	27,698
Accounts payable, accrued expenses and other liabilities	3,483	10,321
	<u>\$ 21,293</u>	<u>\$ 38,019</u>
Equity:	<u>\$ —</u>	<u>\$ 1,557</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2003
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Highwoods Properties, Inc. (the “Company”) and Highwoods Realty Limited Partnership (the “Operating Partnership”) and their majority-controlled affiliates. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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 represents Common Units in the Operating Partnership owned by various individuals and entities other than the Company. The Operating Partnership owns substantially all of the Company’s properties and is the entity through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares of Common Stock outstanding (including common share equivalents). In addition, minority interest includes equity of consolidated real estate partnerships which are owned by various individuals and entities other than the Company.

Certain amounts in the June 30, 2002 and December 31, 2002 financial statements included in this Quarterly Report have been reclassified to conform to the June 30, 2003 presentation. These reclassifications had no material effect on net income or stockholders’ equity as previously reported in the Company’s audited Consolidated Financial Statements or Note 18 to the audited Consolidated Financial Statements included in the Company’s 2002 Annual Report on Form 10-K.

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. We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. These financial statements should be read in conjunction with our 2002 Annual Report on Form 10-K.

Use of Estimates

The preparation of financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

During the past several years, the Company has formed various joint ventures with unrelated investors. The Company has retained minority equity interests ranging from 12.50% to 50.00% in these joint ventures. As required by GAAP, the Company has accounted for its joint venture activity using the equity method of accounting, as the Company does not control these joint ventures. As a result, the assets and liabilities of the Company’s joint ventures are not included on its balance sheet.

The following table sets forth information regarding the Company’s joint venture activity as recorded on the respective joint venture’s books for the six months ended June 30, 2003 and 2002 (\$ in thousands):

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES —Continued

		June 30, 2003					June 30, 2002				
	Percent Owned	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)
Income Statement Data:											
Board of Trade Investment Company	49.00%	\$ 1,215	\$ 791	\$ 34	\$ 200	\$ 190	\$ 1,355	\$ 869	\$ —	\$ 159	\$ 327
Dallas County Partners	50.00%	5,380	2,757	1,389	982	252	5,697	2,594	1,326	915	862
Dallas County Partners II	50.00%	3,123	1,294	1,190	411	228	3,006	1,308	1,243	531	(76)
Fountain Three	50.00%	3,562	1,514	1,141	796	111	3,351	1,254	1,022	636	439
RRHWoods, LLC	50.00%	6,949	3,606	1,346	1,706	291	6,806	3,394	1,447	1,733	232
Kessinger/Hunter, LLC	26.50%(1)	2,927	2,396	—	331	200	3,306	2,482	—	337	487
4600 Madison Associates, LP	12.50%	2,840	1,078	595	887	280	2,591	1,003	617	817	154
Schweiz-Deutschland-USA DreilanderBeteiligung Objekt DLF 98/29-Walker Fink-KG	22.81%	9,673	2,747	2,303	1,728	2,895	10,501	2,703	2,334	1,687	3,777
Dreilander-Fonds 97/26 and 99/32	42.93%	8,106	2,215	2,302	2,007	1,582	8,472	2,161	2,321	1,980	2,010
Highwoods-Markel Associates, LLC	50.00%	1,636	861	558	299	(82)	1,580	849	481	264	(14)
MG-HIW, LLC	20.00%(2)	24,573	8,975	4,643	4,729	6,226(3)	26,174	8,760	5,428	4,069	7,917
MG-HIW Peachtree Corners III, LLC	50.00%(4)	175	62	62	43	8	—	10	—	11	(21)
MG-HIW Rocky Point, LLC	50.00%	—	—	—	—	—	1,813	555	271	248	739
MG-HIW Metrowest I, LLC	50.00%(4)	—	16	—	—	(16)	—	13	—	—	(13)
MG-HIW Metrowest II, LLC	50.00%(4)	266	223	83	162	(202)	127	125	—	119	(117)
Concourse Center Associates, LLC	50.00%	1,028	269	346	151	262	1,065	268	332	151	314
Plaza Colonnade, LLC	50.00%	8	—	—	2	6	—	—	—	—	—
SF-HIW Harborview, LP	20.00%	2,806	850	701	433	822	—	—	—	—	—
Total		\$ 74,267	\$ 29,654	\$ 16,693	\$ 14,867	\$ 13,053	\$ 75,844	\$ 28,348	\$ 16,822	\$ 13,657	\$ 17,017

- (1) The Company decreased its ownership percentage from 30.00% at June 30, 2002 to 26.50% at June 30, 2003.
- (2) On July 29, 2003, the Company acquired the assets and/or its partner's 80.0% equity interests related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC in Atlanta, Raleigh and Tampa. Additionally, the Company has entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC located in Orlando. (See Note 11 for further discussion).
- (3) Net income excludes a \$12.1 million impairment charge at the partnership level of which the Company's share is \$2.4 million. (See Note 11 for further discussion). With the impairment charge, the joint venture had a net loss of \$5,838.
- (4) On July 29, 2003, the Company entered into an option agreement to acquire Miller Global's 50.0% interest for \$3.2 million in the remaining assets encompassing 87,832 square feet of property of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC and was assigned Miller Global's 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC.

3. RELATED PARTY TRANSACTIONS

On July 16, 1999, the Company acquired from a limited liability company ("Bluegrass") controlled by an executive officer and director of the Company an option to purchase development land (102.5 acres) in a staged takedown in the Bluegrass Valley office development project for approximately \$4.6 million in Common Units. On October 31, 2002, the Company exercised its option and purchased 30.6 acres of the optioned property as part of the staged takedown for \$4.6 million. In conjunction with the first stage of the takedown, the Company also acquired from Bluegrass 23.5 acres of other development land for \$2.6 million.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued****3. RELATED PARTY TRANSACTIONS—Continued**

On January 17, 2003, the Company acquired an additional 23.5 acres of the contracted land from Bluegrass for \$2.3 million. In May of 2003, 4.0 acres of the remaining 24.9 acres not yet taken down was taken by the local department of transportation to develop a roadway interchange for consideration of \$1.8 million. The department of transportation took possession and title of the property in June 2003. As part of the terms of the option contract between the Company and Bluegrass, the Company is entitled to the proceeds from the condemnation of \$1.8 million, less the contracted purchase price between the Company and Bluegrass for the condemned property of \$737,348. At June 30, 2003, as a result of the condemnation, the Company has recorded a receivable for the proceeds of \$1.8 million, a related party payable of \$737,348 to Bluegrass and a gain of \$1.0 million related to the condemnation of the development land. These amounts are included in accounts receivable and accounts payable, accrued expenses and other liabilities in the Company's Consolidated Balance Sheets and gain on disposition of land in the Company's Consolidated Statements of Income.

During 2000, in connection with the formation of the MG-HIW Peachtree Corners III, LLC, a construction loan was made by an affiliate of the Company to this joint venture. Interest accrued at a rate of LIBOR plus 200 basis points. This construction loan was repaid in full on July 29, 2003 when the Company was assigned its partner's 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires the Company 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.

The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, the Company enters into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate its interest rate risk with respect to various debt instruments. The Company does not hold these derivatives for trading or speculative purposes.

On the date that the Company enters into a derivative contract, the Company designates 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), (2) a hedge of changes in the fair value of an asset or a liability attributable to a particular risk (a "fair value" hedge), or (3) 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. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in current-period earnings. Changes in the fair value of non-hedging instruments are reported in current-period earnings.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

4. DERIVATIVE FINANCIAL INSTRUMENTS—Continued

The Company formally documents all relationships between hedging instruments and hedged items, as well as its 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. The Company also assesses and documents, 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 the Company determines that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively.

During the six months ended June 30, 2003, the Company entered into and terminated a treasury lock agreement to hedge the change in the fair market value of the MandatOry Par Put Remarketable Securities ("MOPPRS") issued by the Operating Partnership. This treasury lock agreement was terminated for a payment of \$1.5 million to the Company. This gain was offset by an increase in the fair value of the MOPPRS of \$1.5 million, thus no gain or loss was recognized during the six months ended June 30, 2003. (See Note 9 for further discussion).

In addition, during the six months ended June 30, 2003, the Company entered into three interest rate swap agreements related to an anticipated fixed rate financing, which effectively locked the LIBOR swap rate at 3.92%. These swap agreements are designated as cash flow hedges and the effective portion of the cumulative gain on these derivative instruments was \$481,327 at June 30, 2003 and is being reported as a component of AOCL in stockholders' equity. These amounts will be recognized into earnings in the same period or periods during which the hedged transaction affects earnings. The Company also entered into two interest rate swaps related to a floating rate credit facility. The swaps effectively fix the LIBOR rate on \$20.0 million of floating rate debt at 0.99% from August 1, 2003 to January 1, 2004 and at 1.59% from January 2, 2004 until May 31, 2005. These swap agreements are designated as cash flow hedges and the effective portion of the cumulative loss on these derivative instruments was \$(6,212) at June 30, 2003. The Company expects that the portion of the cumulative gain recorded in AOCL at June 30, 2003 associated with these derivative instruments which will be recognized within the next 12 months will be approximately \$29,633.

At June 30, 2003, approximately \$8.3 million of deferred financing costs from past cash flow hedging instruments remain in AOCL. These costs will be recognized into earnings as the underlying debt is repaid. The Company expects that the portion of the cumulative loss recorded in AOCL at June 30, 2003 associated with these derivative instruments, which will be recognized within the next 12 months, will be approximately \$1.9 million.

5. OTHER COMPREHENSIVE INCOME

Other comprehensive income 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 are as follows (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income	\$10,120	\$27,750	\$21,292	\$54,622
Unrealized gains on cash flow and fair value hedges	475	207	475	411
Amortization of past hedges	461	386	898	770
	<u>936</u>	<u>593</u>	<u>1,373</u>	<u>1,181</u>
	<u>\$11,056</u>	<u>\$28,343</u>	<u>\$22,665</u>	<u>\$55,803</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

In October 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”). SFAS 144 supercedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of” and the accounting and reporting provisions for disposals of a segment of a business as addressed in APB 30, “Reporting the Results of Operations—Reporting the Effects of the Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.” SFAS 144 is effective as of January 1, 2002 and extends the reporting requirements of discontinued operations to include those long-lived assets which:

- (1) are classified as held for sale at June 30, 2003 as a result of disposal activities that were initiated subsequent to January 1, 2002 or
- (2) were sold during 2002 and 2003 as a result of disposal activities that were initiated subsequent to January 1, 2002.

Per SFAS 144, those long-lived assets which were sold during 2002 and resulted from disposal activities initiated prior to January 1, 2002 should be accounted for in accordance with SFAS 121 and APB 30. During 2002, the Company sold certain properties which resulted from disposal activities initiated prior to January 1, 2002, and the gain realized on the sale is appropriately included in the gain on disposition of depreciable assets in the Company’s consolidated statements of income.

The table below sets forth the net operating results and net carrying value of 2.3 million square feet of property and four apartment units sold during 2002 and 2003 and 3.1 million square feet of property, 88 apartment units and 115.0 acres of revenue-producing land held for sale at June 30, 2003. These were a result of disposal activities that were initiated subsequent to the effective date of SFAS 144 and are classified as discontinued operations in the Company’s consolidated statements of income (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Total revenue	\$ 6,490	\$ 11,588	\$ 13,461	\$ 23,823
Rental operating expenses	1,436	3,146	3,032	6,293
Depreciation and amortization	369	2,613	1,219	5,268
Interest expense	428	430	857	860
	<u>4,257</u>	<u>5,399</u>	<u>8,353</u>	<u>11,402</u>
Income before gain on sale of discontinued operations and minority interest				
Minority interest in income from discontinued operations	(476)	(631)	(943)	(1,364)
	<u>3,781</u>	<u>4,768</u>	<u>7,410</u>	<u>10,038</u>
Income from discontinued operations, net of minority interest				
Gain on sale of discontinued operations	1,515	2,136	1,323	2,136
Minority interest in gain on sale of discontinued operations	(170)	(250)	(148)	(250)
	<u>1,345</u>	<u>1,886</u>	<u>1,175</u>	<u>1,886</u>
Gain on sale of discontinued operations, net of minority interest				
	<u>\$ 5,126</u>	<u>\$ 6,654</u>	<u>\$ 8,585</u>	<u>\$ 11,924</u>
Total discontinued operations				
	<u>\$ 5,126</u>	<u>\$ 6,654</u>	<u>\$ 8,585</u>	<u>\$ 11,924</u>
Net carrying value	\$168,218	\$342,823	\$168,218	\$342,823

In addition, SFAS 144 requires that a long-lived asset classified as held for sale be measured at the lower of the carrying value or fair value less cost to sell. At June 30, 2003, because there were no properties held for sale with a carrying value greater than their fair value less cost to sell, no impairment loss was recognized during the six months ended June 30, 2003.

SFAS 144 also requires that the carrying value of a long-lived asset classified as held and used be compared to the sum of its estimated future undiscounted cash flows. If the carrying value is greater than the sum of its undiscounted future cash flows, an impairment loss should be recognized. At June 30, 2003, because there were no properties with a carrying value exceeding the sum of their undiscounted future cash flows, no impairment loss was recognized during the six months ended June 30, 2003.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

7. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement No. 141, “Business Combinations” (“SFAS 141”), which provides that all business combinations in the scope of the Statement are to be accounted for under the purchase method. SFAS 141 requires companies to account for the value of in-place operating leases as favorable or unfavorable relative to market rents and to account for the costs of acquiring such leases separately from the value of the real estate for all acquisitions. These intangibles are to be amortized over the related contractual lease terms as an increase to or reduction of rental revenues. During 2003, in accordance with the guidance of SFAS 141, the Company valued in-place leases of the property at the date of acquisition. As a result of an acquisition on January 21, 2003, the Company recorded \$472,080 of the purchase price as net intangible leases. This amount is included in other assets in the accompanying consolidated balance sheets. In addition, during the six months ended June 30, 2003, the Company has recognized \$86,214 in amortization of the net intangible leases. This amount was deducted from rental revenues in the Company’s consolidated statement of income.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”), which changes the accounting for, and disclosure of, certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require the Company to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or equity security of the guaranteed party. In accordance with FIN 45, the Company has included \$1.9 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$1.9 million on its consolidated balance sheet at June 30, 2003 related to two separate guarantees of a construction loan agreement and a construction completion agreement entered into by the Plaza Colonnade LLC joint venture, in which the Company is a 50.0% owner. (See Note 10 for further discussion).

In December 2002, the FASB issued Statement No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure” (“SFAS 148”), which amends FASB No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements related to the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2002. On January 1, 2003, the Company adopted the fair value recognition provision prospectively for all awards granted after January 1, 2003. Under this provision, total compensation expense related to stock options is determined using the fair value of the stock options on the date of grant and is recognized on a straight-line basis over the option vesting period. Prior to 2003, the Company accounted for stock options under this plan under the guidance of APB Opinion 25 “Accounting for Stock Issued to Employees and Related Interpretations.”

In accordance with SFAS 148, the Company has included in general and administrative expenses in its consolidated statement of income, \$25,748 of amortization related to the vesting of stock options granted during the six months ended June 30, 2003. In addition, the Company has included in stockholders’ equity in its consolidated balance sheet at June 30, 2003 the total grant value of \$308,985. See below for the amounts that would have been deducted from net income if the Company had elected to expense the fair value of all stock option awards that had vested rather than those awards issued subsequent to January 1, 2003:

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

7. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS—Continued

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(\$ in thousands, except per share amounts)			
Net income, as reported	\$10,120	\$27,750	\$21,292	\$54,622
Add: Stock option expense included in reported net income	19	—	25	—
Deduct: Total stock option expense determined under fair value recognition method for all awards	(196)	(217)	(360)	(433)
Pro forma net income	\$ 9,943	\$27,533	\$20,957	\$54,189
Basic net income per common share—as reported	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73
Basic net income per common share—pro forma	\$ 0.04	\$ 0.37	\$ 0.10	\$ 0.73
Diluted net income per common share—as reported	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73
Diluted net income per common share—pro forma	\$ 0.04	\$ 0.37	\$ 0.10	\$ 0.72

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities” (“VIEs”), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights and to determine when and which business enterprise should consolidate the VIEs. This new model applies when either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity’s activities without additional financial support. In addition, FIN 46 requires additional disclosures. For the Company’s interests in VIEs owned at January 31, 2003, FIN 46 will be effective July 1, 2003. FIN 46 is in effect for interests in VIEs acquired subsequent to January 31, 2003. The Company is assessing the impact of this interpretation on its accounting for investments in unconsolidated joint ventures owned at January 31, 2003.

In April 2003, the FASB issued Statement No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“SFAS 149”). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with some exceptions, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of SFAS 149 do not have a material impact on the Company’s financial condition or results of operations.

In May 2003, the FASB issued Statement No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS 150”). SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective July 1, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of this Statement and still existing at the beginning of the interim period of adoption. The Company is assessing the impact of SFAS 150 on its financial condition and results of operations.

8. SEGMENT INFORMATION

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

8. SEGMENT INFORMATION—Continued

The Company's chief operating officer 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 chief operating officer evaluates operating results and allocates resources on a property-by-property basis within the various property types.

The accounting policies of the segments are the same as those of the Company. Further, all operations are within the United States and no customer comprises more than 10% of consolidated revenues. The following table summarizes the rental revenue and net operating income for the three and six months ended June 30, 2003 and 2002 and total assets at June 30, 2003 and 2002 for each reportable segment (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Rental Revenue (1):				
Office segment	\$ 86,046	\$ 89,463	\$173,222	\$184,207
Industrial segment	9,079	8,680	17,337	17,073
Retail segment	10,195	9,437	20,384	19,262
Apartment segment	339	283	686	566
Total Rental Revenue	\$105,659	\$107,863	\$211,629	\$221,108
Net Operating Income (1):				
Office segment	\$ 54,296	\$ 60,179	\$109,871	\$124,170
Industrial segment	7,200	6,982	13,576	13,830
Retail segment	7,154	6,331	14,375	13,121
Apartment segment	139	123	283	254
Total Net Operating Income	\$ 68,789	\$ 73,615	\$138,105	\$151,375
Reconciliation to income before gain on disposition of land and depreciable assets, minority interest, and discontinued operations:				
Depreciation and amortization	\$ (32,412)	\$ (28,955)	\$ (64,856)	\$ (57,666)
Interest expense	(28,579)	(27,028)	(56,879)	(52,971)
General and administrative expenses	(6,524)	(9,047)	(11,868)	(14,403)
Interest and other income	3,229	2,695	6,116	6,033
Equity in (loss)/earnings of unconsolidated affiliates	(485)	2,475	1,276	5,039
Income before gain on disposition of land and depreciable assets, minority interest and discontinued operations	\$ 4,018	\$ 13,755	\$ 11,894	\$ 37,407
			June 30,	
			2003	2002
Total Assets:				
Office segment			\$2,527,510	\$2,805,585
Industrial segment			343,646	328,320
Retail segment			290,734	249,797
Apartment segment			13,913	11,741
Corporate and other			186,230	170,322
Total Assets			\$3,362,033	\$3,565,765

(1) Net of discontinued operations.

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

9. SECURED NOTE

On February 2, 1998, the Operating Partnership sold \$125.0 million of Mandatory Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bore an interest rate of 6.835% from the date of issuance through January 31, 2003. On January 31, 2003, the interest rate was changed to 8.975% pursuant to the interest rate reset provisions of the MOPPRS. On February 3, 2003, the Operating Partnership repurchased 100.0% of the principal amount of the MOPPRS from the sole holder thereof in exchange for a secured note in the principal amount of \$142.8 million. The secured note bears interest at a fixed rate of 6.03% and has a maturity date of February 28, 2013.

10. COMMITMENTS AND CONTINGENCIES

Joint Ventures

In connection with several of our joint venture partners with unaffiliated parties, the Company has agreed to guarantee certain rent shortfalls and re-tenanting costs for certain properties contributed or sold to the joint ventures during 1999, 2000 and 2002. As of June 30, 2003, the Company has \$16.5 million accrued for obligations related to these agreements. The Company believes that its estimates related to these agreements are adequate. However, if their assumptions and estimates prove to be incorrect future losses may occur.

In accordance with FIN 45, the Company has included \$1.9 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$1.9 million on its consolidated balance sheet at June 30, 2003 related to two separate guarantees of a construction loan agreement and a construction completion agreement entered into by the Plaza Colonnade LLC joint venture, in which the Company is a 50.0% owner. The term of the construction loan agreement is February 2003 through February 2006, with two one-year options to extend the maturity date that are conditional on completion and lease-up of the project. The term of the construction completion agreement requires the core and shell of the building to be completed by December 15, 2005. Both guarantees arose from the formation of the joint venture to construct an office building. If the joint venture was unable to repay the outstanding balance under the construction loan agreement or complete the construction of the office building, the Company would be required, under the terms of the agreements, to repay the outstanding balance under the construction loan and complete the construction of the office building. The maximum potential amount of future payments by the Company under these agreements is \$34.9 million.

In addition, the Company has guaranteed its 80.0% partner in MG-HIW, LLC joint venture, Miller Global, a minimum internal rate of return on \$50.0 million of their equity investment in the joint venture's Orlando assets.

Certain properties owned in joint ventures with unaffiliated parties have buy/sell options that may be exercised to acquire the other partner's interest by either the Company or its joint venture partner if certain conditions are met as set forth in the respective joint venture agreement. The Company's partner in SF-HIW Harborview, LP has the right to put its 80.0% equity interest in the partnership to the Company in cash at anytime during the one-year period commencing on September 11, 2014. The value of the equity interest will be determined based upon the then fair market value of SF-HIW Harborview, LP assets and liabilities.

Dispositions

In connection with the November 26, 2002 disposition of 225,000 square feet of property, fully leased to Capital One Services, Inc., a subsidiary of Capital One Financial Services, Inc., the Company agreed to guarantee any rent shortfalls and re-tenanting costs for a five year period of time from the date of sale. The Company's contingent liability as of June 30, 2003 is \$18.5 million. Because of this guarantee, in accordance with GAAP, the Company deferred the gain of approximately \$6.9 million, which will be recognized when the contingency period is concluded.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued****10. COMMITMENTS AND CONTINGENCIES—Continued****Litigation**

The Company is party to a variety of legal proceedings arising in the ordinary course of its business. The Company believes that it is adequately covered by insurance. Accordingly, none of such proceedings are expected to have a material adverse effect on the Company's business, financial condition and results of operations.

11. SUBSEQUENT EVENTS**Acquisition of Joint Venture Assets and Equity Interests**

On July 29, 2003, the Company acquired the assets and/or its partner's 80.0% equity interest related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC. The properties are located in Atlanta, the Research Triangle and Tampa and were 80.0% leased as of June 30, 2003. At the closing of the transaction, the Company paid Miller Global \$28.1 million, repaid \$41.4 million of debt related to the properties and assumed \$64.7 million of debt. The transaction implies a valuation (100.0% ownership) for the assets of \$138.3 million and other net assets of approximately \$2.9 million.

Additionally, the Company has entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC for between \$62.5 to \$65.0 million depending on the closing date and the distributions from MG-HIW, LLC prior to closing. The remaining assets of MG-HIW, LLC are five properties encompassing 1.3 million square feet located in the central business district of Orlando. The properties were 83.0% leased as of June 30, 2003 and are encumbered by \$132.8 million of debt. On July 29, 2003, the Company entered into a letter of credit in the amount of \$7.5 million in favor of Miller Global which can be drawn by Miller Global in the event the Company does not exercise the option by March 24, 2004.

The following unaudited pro forma information has been prepared assuming the acquisition of the MG-HIW, LLC properties described above occurred January 1, 2002 (in thousands, except per share amounts):

	Pro Forma for the Six Months Ended	
	June 30, 2003	June 30, 2002
Total revenue	\$ 255,282	\$ 278,275
Net income	\$ 26,439	\$ 58,977
Net income per share—basic	\$ 0.21	\$ 0.82
Net income per share—diluted	\$ 0.21	\$ 0.81

The pro forma information is not necessarily indicative of what the Company's results of operations would have been if the transaction had occurred at the beginning of the period presented. Additionally, the pro forma information does not purport to be indicative of the Company's results of operations for future periods.

For the three months ended June 30, 2003, an impairment charge of \$12.1 million was recorded by the MG-HIW, LLC joint venture for assets being classified as held for sale related to the acquisition by the Company of these assets. The Company's share of this charge of \$2.4 million reduced the Company's equity in earnings of unconsolidated affiliates for the same period.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

11. SUBSEQUENT EVENTS—Continued

Amendment of Revolving Loan

On July 17, 2003, the Company amended and restated its existing revolving loan. The amended and restated \$250.0 million revolving loan (the “Revolving Loan”) is from a group of ten lender banks, matures in July 2006 and replaces the Company’s previous \$300.0 million revolving loan. The Revolving Loan carries an interest rate based upon the Company’s senior unsecured credit ratings. As a result, interest currently accrues on borrowings under the Revolving Loan at an average rate of LIBOR plus 105 basis points. The terms of the Revolving Loan require the Company to pay an annual facility fee equal to .25% of the aggregate amount of the Revolving Loan and require compliance with certain financial covenants. Had the Revolving Loan been in place at June 30, 2003, the Company would have been in compliance with its covenants.

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 customer demand;
- the financial condition of our customers could deteriorate;
- 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 release space quickly or on as favorable terms as old leases;
- 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.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the cautionary statements we make in "Business—Risk Factors" set forth in our 2002 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 and completed its initial public offering in 1994. Today, we are one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At June 30, 2003, we:

- owned 486 in-service office, industrial and retail properties, encompassing approximately 36.8 million rentable square feet;
- owned an interest (50.0% or less) in 78 in-service office and industrial properties, encompassing approximately 7.8 million rentable square feet, and 418 apartment units;
- owned 1,360 acres of undeveloped land suitable for future development; and
- are developing an additional four properties, which will encompass approximately 485,000 rentable square feet (including one property encompassing 285,000 rentable square feet that we are developing with a 50.0% joint venture partner).

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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, 2003, the Company owned 88.8% of the Common Units in the Operating Partnership.

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, 2003 and 2002:

	June 30, 2003		June 30, 2002	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-Leased
In-Service:				
Office	25,052,000	80.5%	25,787,000	86.7%
Industrial	10,243,000	88.7%	10,468,000	83.5%
Retail (1)	1,527,000	96.8%	1,651,000	95.6%
Total	36,822,000	83.4%	37,906,000	86.2%
Development:				
Completed—Not Stabilized				
Office	140,000	30.0%	735,000	28.7%
Industrial	60,000	50.0%	136,000	29.0%
Retail	—	—	20,000	90.0%
Total	200,000	36.0%	891,000	30.1%
In Process				
Office	—	—	201,000	70.1%
Industrial	—	—	60,000	—
Total	—	—	261,000	54.0%
Total:				
Office	25,192,000		26,723,000	
Industrial	10,303,000		10,664,000	
Retail	1,527,000		1,671,000	
Total	37,022,000		39,058,000	

(1) Excludes basement space of 527,000 square feet.

The following summarizes our capital recycling program since the beginning of 2002:

	Six Months Ended June 30, 2003	Year Ended 2002
Office, Industrial and Retail Properties (rentable square feet in thousands)		
Dispositions	(342)	(2,270)
Developments Placed In-Service	131	2,214
Redevelopments	(145)	(52)
Acquisitions	66	—
Net Change	(290)	(108)

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Customer Diversification

The following table sets forth information concerning the 20 largest customers of our wholly-owned properties as of June 30, 2003 (\$ 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
Federal Government	58	607,026	\$ 12,478	2.96%	5.2
AT&T	8	617,477	11,646	2.77	4.4
PricewaterhouseCoopers	6	297,795	6,879	1.63	6.8
State of Georgia	9	349,690	6,640	1.58	5.7
Capital One Services	6	361,968	6,390	1.52	5.4
Sara Lee	10	1,230,534	4,591	1.09	2.0
IBM	7	215,737	4,566	1.08	2.2
Bell South	9	176,960	3,706	0.88	1.0
Northern Telecom	1	246,000	3,651	0.87	4.7
Volvo	7	264,717	3,305	0.78	5.9
US Airways	5	295,046	3,216	0.76	4.5
Lockton Companies	1	127,485	3,159	0.75	11.7
Business Telecom	5	147,379	2,945	0.70	1.9
Bank of America	22	145,668	2,943	0.70	3.8
Hartford Insurance	6	134,021	2,918	0.69	2.8
WorldCom and Affiliates	14	145,063	2,866	0.68	2.8
T-Mobile USA	3	120,561	2,791	0.66	3.0
BB&T	8	241,075	2,618	0.62	7.5
Ikon	7	181,361	2,458	0.58	4.4
Carlton Fields	2	95,771	2,429	0.58	1.0
Total	194	6,001,334	\$ 92,195	21.88%	4.6

(1) Annualized Rental Revenue is June 2003 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

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. For further discussion of our accounting policies with respect to our investments in unconsolidated affiliates, see "Investments in Joint Ventures." 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 described in Note 1 to our Consolidated Financial Statements for the six months ended June 30, 2003. 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. Management has reviewed our critical accounting policies and estimates with the audit committee of our Board of Directors and our independent auditors.

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;

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- 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 estimates of the undiscounted future operating cash flows expected to be generated are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the undiscounted future operating cash flows estimated by us in our impairment analysis may not be achieved and we may 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 customers 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 customers, delinquent payments, 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 the development and construction 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 and construction 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 the Company’s assumptions regarding the successful efforts of development, construction 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, recoveries from customers which represent reimbursements for certain costs as provided in the lease agreements such as real estate taxes, utilities, insurance, common area maintenance and other recoverable costs, parking and other income and termination fees which relate to specific customers, each of whom has paid a fee to terminate its lease obligation before the end of the contracted term on the lease.

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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.

Investments in joint ventures. As of June 30, 2003, our investments in unconsolidated affiliates consisted of one corporation, nine limited liability companies, five limited partnerships and two general partnerships. We account for our investments in unconsolidated affiliates under the equity method of accounting as we exercise significant influence, but do not control these entities. Our unconsolidated corporation is controlled by an unrelated third party that owns more than 50.0% of the outstanding voting stock. We have a 50.0% or less ownership interest in the unconsolidated limited liability companies and, under the terms of the various operating agreements, do not have any participating rights. We have a 50.0% or less ownership interest in the unconsolidated limited partnerships and general partnerships. Although we have an interest in two unconsolidated general partnerships and are the general partner in three of the unconsolidated limited partnerships, under the terms of the various partnership agreements, we do not have control of the major operating and financial policies of these unconsolidated partnerships.

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 the life of the property, which is generally 40 years.

From time to time, we contribute real estate assets to an unconsolidated joint venture in exchange for a combination of cash and an equity interest in the venture. We record a partial gain on the contribution of the real estate assets to the extent of the third party investor's interest and record a deferred gain to the extent of our continuing interest in the unconsolidated joint venture.

Results of Operations

Known Trends

We expect net income and funds from operations to be lower in the second half of 2003 as compared to the second half of 2002 due to the following factors:

- lower occupancy;
- lower first year cash rents;
- additional asset sales;
- the bankruptcies of WorldCom and US Airways in 2002; and
- general economic conditions in each of our primary markets.

During the remainder of 2003, we expect occupancy to be lower than in the second half of 2002 primarily due to the leases rejected by WorldCom and US Airways and the general decline in employment rates in our markets which has led to a decrease in the demand for office and industrial space. During the last six months of 2003, the leases on approximately 3.2 million rentable square feet of space, or 10.3% of our portfolio, will expire. This square footage represents approximately 10.0% of our annualized revenue in 2003. As of June 30, 2003, approximately 42.9% of this space had been re-leased. For the first six months of 2003, we have leased 3.6 million square feet, 76.5% with existing customers and 23.5% with new customers.

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The following table sets forth scheduled lease expirations at our wholly-owned in-service properties as of June 30, 2003, assuming no customer exercises renewal options.

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Rental Revenue Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations	Percent of Annualized Rental Revenue Represented by Expiring Leases
				(\$ in thousands)		
Remainder of 2003 (2)	486	3,184,121	10.3%	\$ 42,902	\$ 13.47	10.0%
2004	645	5,434,655	17.8	60,657	11.16	14.1
2005	693	4,888,641	15.9	69,995	14.32	16.3
2006	504	4,034,504	13.1	60,962	15.11	14.2
2007	317	3,582,987	11.6	38,389	10.71	8.9
2008	266	3,123,689	10.1	43,765	14.01	10.2
2009	93	2,065,453	6.7	33,851	16.39	7.9
2010	73	1,147,543	3.7	22,694	19.78	5.3
2011	61	1,046,239	3.4	21,384	20.44	5.0
2012	48	833,095	2.7	14,539	17.45	3.4
Thereafter	161	1,448,019	4.7	20,166	13.93	4.7
	3,347	30,788,946	100.0%	\$ 429,304	\$ 13.94	100.0%

- (1) Annualized Rental Revenue is June 2003 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12
(2) Includes 646,000 square feet of leases that are on a month to month basis or 1.3% of total annualized revenue

We do not anticipate that positive employment growth will lead to a corresponding increase in demand for office space during the last six months of 2003. Improving employment in our markets will not necessarily result in positive space absorption because of the significant amount of under-utilized space and space available for sublease in our markets. Customers have indicated that they are, for the most part, unwilling to commit to space expansion plans until they have a better sense of the stability of the economic recovery in the U.S. and abroad.

During the remainder of 2003, we expect to continue our capital recycling program of selectively disposing of non-core properties or other properties the sale of which can generate attractive returns. See "Liquidity and Capital Resources—Capital Recycling Program." Although we intend to use the net proceeds from asset dispositions to repay debt and repurchase Common Stock, any net decrease in our property portfolio generally tends to result in lower net income. In addition, the majority of assets sold or held for sale generally have occupancy levels above the average occupancy of our total portfolio and, as a result, the sale of these assets may lower the overall occupancy rate of our portfolio.

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. As of December 31, 2002, WorldCom rejected two leases encompassing 819,653 square feet with annualized revenue of approximately \$14.9 million. In addition, effective May 1, 2003, WorldCom rejected an additional lease encompassing 21,806 square feet with annualized revenue of approximately \$311,000.

We have filed claims in connection with the rejected leases in the amount of \$21.5 million. Actual amounts to be received in satisfaction of these claims will be subject to WorldCom's approved plan of reorganization and the availability of funds to pay creditors.

On August 11, 2002, US Airways filed a voluntary petition with the United States Bankruptcy Court seeking relief under Chapter 11 of the United States Bankruptcy Code. We entered into an agreement with US Airways that was approved by the United States Bankruptcy Court on February 21, 2003, whereby they will continue to lease 293,007 square feet. Additionally, we have agreed to a \$600,000 reduction in annual rent on one lease, encompassing 81,220 square feet and expiring on December 31, 2007, for the remaining term of the lease.

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We cannot provide any assurance that we will be able to re-lease rejected space quickly or on as favorable terms.

Three and Six Months Ended June 30, 2003

As described in Note 6 to the Consolidated Financial Statements, we reclassified the operations and/or gain/(loss) from disposal of certain properties to discontinued operations if the properties were either sold during 2002 and 2003 or were held for sale at June 30, 2003 and met certain conditions as stipulated by Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS 144"). Accordingly, properties sold during 2002 that did not meet certain conditions as stipulated by SFAS 144 were not reclassified to discontinued operations.

The following table sets forth information regarding our results of operations for the three and six months ended June 30, 2003 and 2002 (\$ in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2003	2002	\$ Change	2003	2002	\$ Change
Rental revenue	\$ 105.7	\$ 107.9	\$ (2.2)	\$211.6	\$221.1	\$ (9.5)
Operating expenses:						
Rental property	36.9	34.3	2.6	73.5	69.7	3.8
Depreciation and amortization	32.4	29.0	3.4	64.8	57.7	7.1
Interest expense:						
Contractual	27.8	26.8	1.0	55.5	52.3	3.2
Amortization of deferred financing costs	0.8	0.3	0.5	1.4	0.7	0.7
	28.6	27.1	1.5	56.9	53.0	3.9
General and administrative (includes \$3,514 and \$3,700 of nonrecurring compensation expense in the three and six months ending June 30, 2002, respectively)	6.5	9.0	(2.5)	11.9	14.4	(2.5)
Total operating expenses	104.4	99.4	5.0	207.1	194.8	12.3
Other income:						
Interest and other income	3.2	2.7	0.5	6.1	6.0	0.1
Equity in (loss)/earnings of unconsolidated affiliates	(0.5)	2.5	(3.0)	1.3	5.0	(3.7)
	2.7	5.2	(2.5)	7.4	11.0	(3.6)
Income before gain on disposition of land and depreciable assets, minority interest and discontinued operations	4.0	13.7	(9.7)	11.9	37.3	(25.4)
Gain on disposition of land	1.4	6.0	(4.6)	2.3	5.8	(3.5)
Gain on disposition of depreciable assets	0.2	4.2	(4.0)	0.2	5.4	(5.2)
Income before minority interest and discontinued operations	5.6	23.9	(18.3)	14.4	48.5	(34.1)
Minority interest	(0.6)	(2.9)	2.3	(1.7)	(5.8)	4.1
Income from continuing operations	5.0	21.0	(16.0)	12.7	42.7	(30.0)
Discontinued operations:						
Income from discontinued operations, net of minority interest	3.8	4.8	(1.0)	7.4	10.0	(2.6)
Gain on sale of discontinued operations, net of minority interest	1.3	1.9	(0.6)	1.2	1.9	(0.7)
	5.1	6.7	(1.6)	8.6	11.9	(3.3)
Net income	10.1	27.7	(17.6)	21.3	54.6	(33.3)
Dividends on preferred shares	(7.7)	(7.7)	0.0	(15.4)	(15.4)	0.0
Net income available for common stockholders	\$ 2.4	\$ 20.0	\$ (17.6)	\$ 5.9	\$ 39.2	\$ (33.3)

Three Months Ended June 30, 2003. Rental revenue from continuing operations decreased \$2.2 million, or 2.0%, from \$107.9 million for the three months ended June 30, 2002 to \$105.7 million for the three months ended June 30, 2003. The decrease was primarily a result of a decrease in average occupancy rates from 86.4% for the three months ended June 30, 2002 to 82.4% for the three months ended June 30, 2003 and the bankruptcies of WorldCom and US Airways, which resulted in a 2.6% decrease in average occupancy rates and a \$4.3 million decrease in rental revenue for the three months ended June 30, 2003. In addition, during 2002 and the six months ended June 30, 2003, approximately

2.3 million square feet of development properties were placed in-service which have leased-up slower than expected and, as a result, have decreased average occupancy rates by 1.2%. These

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decreases were offset by the write-off of \$3.1 million of straight-line rent attributable to the WorldCom bankruptcy for the three months ended June 30, 2002 and an increase in lease termination fees of \$273,397 from the three months ended June 30, 2002 to the three months ended June 30, 2003.

Same property rental revenue, generated from the 34.7 million square feet of 464 wholly-owned in-service properties on January 1, 2002, decreased \$2.2 million, or 2.0 %, for the three months ended June 30, 2003 compared to the three months ended June 30, 2002. This decrease is primarily a result of lower same property average occupancy, which decreased from 88.2% in 2002 to 84.6% in 2003, and the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.4% decrease in same property average occupancy rates and a \$1.2 million decrease in same property rental revenue for the three months ended June 30, 2003.

During the three months ended June 30, 2003, 266 second generation leases representing 1.7 million square feet of office, industrial and retail space were executed. This was 6.7% lower than those of expired leases on an average rate per square foot. In addition, on a straight-line rent comparison basis, the average rate per square foot over the lease term for leases executed in the three months ended June 30, 2003 was 0.4% higher than the rent paid by previous customers.

Rental operating expenses from continuing operations (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) increased \$2.6 million, or 7.6%, from \$34.3 million for the three months ended June 30, 2002 to \$36.9 million for the three months ended June 30, 2003. The increase was a result of increases in repairs and maintenance and certain fixed operating expenses that do not vary with net changes in our occupancy percentage. In addition, we placed 2.3 million square feet of development properties in-service during 2002 and 2003 which resulted in an increase in rental operating expenses from continuing operations.

Rental operating expenses as a percentage of rental revenue increased from 31.8% for the three months ended June 30, 2002 to 34.9% for the three months ended June 30, 2003. The increase in these expenses as a percentage of rental revenue was a result of the increases in rental operating expenses as described above and a decrease in rental revenue, primarily due to lower average occupancy and the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.6% decrease in average occupancy rates and a \$1.2 million decrease in rental revenue for the three months ended June 30, 2003.

Same property rental operating expenses, which are the expenses of 464 wholly-owned in-service properties on January 1, 2002, increased \$610,363, or 1.8%, for the three months ended June 30, 2003, compared to the three months ended June 30, 2002. The increase was a result of increases in repairs and maintenance and certain fixed operating expenses that do not vary with net changes in our occupancy percentage.

Same property rental operating expenses as a percentage of related revenue increased from 32.1% for the three months ended June 30, 2002 to 33.3% for the three months ended June 30, 2003. The increase in these expenses as a percentage of related revenue was a result of the increase in same property rental operating expenses as described above and a decrease in same property rental revenue, primarily due to the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.4% decrease in same property average occupancy rates and a \$1.2 million decrease in same property rental revenue for the three months ended June 30, 2003.

Depreciation and amortization from continuing operations for the three months ended June 30, 2003 and 2002 was \$32.4 million and \$29.0 million, respectively. The increase of \$3.4 million, or 11.7%, was due to an increase in amortization related to leasing commissions and tenant improvement expenditures for properties placed in-service during 2002 and the six months ended June 30, 2003 and the write-off of deferred leasing costs and tenant improvements for customers that vacate their space prior to lease expiration. This increase was partially offset by a decrease in depreciation for properties disposed of during 2002 that are not classified as discontinued operations in accordance with SFAS 144.

Interest expense from continuing operations increased \$1.5 million, or 5.5%, from \$27.1 million for the three months ended June 30, 2002 to \$28.6 million for the three months ended June 30, 2003. The increase was primarily attributable to the decrease in capitalized interest from \$2.6 million for the three months ended June 30, 2002 to \$349,367 for the three months ended June 30, 2003. In addition, average interest rates increased from 6.9% in the second quarter of 2002 to 7.1% in the second quarter of 2003. Partly offsetting these increases was a decrease in the average outstanding debt balance from the second quarter of 2002 to the second quarter of 2003. Interest expense for

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the three months ended June 30, 2003 and 2002 included \$756,777 and \$340,673, respectively, of amortization of deferred financing costs.

General and administrative expenses as a percentage of total revenue, which includes rental revenue and interest and other income for both continuing and discontinued operations and equity in earnings of unconsolidated affiliates, was 5.7% for the three months ended June 30, 2003 and 7.2% for the three months ended June 30, 2002. The decrease was a result of a nonrecurring compensation charge of \$3.5 million recorded during the three months ended June 30, 2002, which was related to the exercise of stock options. Partly offsetting this decrease was an increase in general and administrative expenses as a result of the decrease of capitalization of these costs due to the decrease in development activity in 2003 and an increase in deferred compensation as a result of the issuance of restricted stock during 2002 and the six months ended June 30, 2003. In addition, rental revenue and equity in earnings of unconsolidated affiliates decreased from the three months ended June 30, 2002 to the three months ended June 30, 2003.

Interest and other income from continuing operations increased \$533,822, or 18.5%, from \$2.7 million for the three months ended June 30, 2002 to \$3.2 million for the three months ended June 30, 2003. The increase primarily resulted from an increase in leasing and management fee income and a Tax Increment Financing refund received in the three months ended June 30, 2003. Partly offsetting these increases was a decrease in development fee income in the three months ended June 30, 2003 and a decrease in interest income due to the collection of notes receivable during 2002.

Equity in earnings of unconsolidated affiliates decreased \$3.0 million from \$2.5 million for the three months ended June 30, 2002 to \$(484,695) for the three months ended June 30, 2003. The decrease was primarily a result of a charge of \$2.4 million which represents our proportionate share of the impairment loss of \$12.1 million recorded by the MG-HIW, LLC joint venture in the three months ended June 30, 2003 for assets being classified as held for sale related to the acquisition of the assets of the MG-HIW, LLC joint venture (See Note 11 to the Consolidated Financial Statements for further discussion).

Gain on disposition of land and depreciable assets decreased \$8.6 million, or 84.3%, to \$1.6 million for the three months ended June 30, 2003 from \$10.2 million for the three months ended June 30, 2002. In the second quarter of 2003, the majority of the gain was comprised of a gain of \$691,525 related to the disposition of 5.78 acres of land and a gain of approximately \$1.0 million related to the condemnation of 4.0 acres of Bluegrass land, which is discussed further in Note 3 to the Consolidated Financial Statements. Partly offsetting these gains was an impairment loss of \$295,587 related to two land parcels held for sale at June 30, 2003. In the second quarter of 2002, the majority of the gain was comprised of a gain related to the disposition of 396,212 square feet of office properties that did not meet certain conditions to be classified as discontinued operations as described in Note 6 to the Consolidated Financial Statements and a gain on the disposition of two acres of land.

In accordance with SFAS 144, we classified net income of \$3.8 million and \$4.8 million, net of minority interest, as discontinued operations for the three months ended June 30, 2003 and 2002, respectively, which pertained to 2.3 million square feet of property and four apartment units sold during 2002 and 2003 and 3.1 million square feet of property, 88 apartment units and 115.04 acres of revenue-producing land held for sale at June 30, 2003. We also classified gains of \$1.3 million and \$1.9 million, net of minority interest, as discontinued operations for the three months ended June 30, 2003 and 2002, respectively.

Six Months Ended June 30, 2003. Rental revenue from continuing operations decreased \$9.5 million, or 4.3%, from \$221.1 million for the six months ended June 30, 2002 to \$211.6 million for the six months ended June 30, 2003. The decrease was primarily a result of a decrease in average occupancy rates from 87.0% for the six months ended June 30, 2002 to 82.0% for the six months ended June 30, 2003 and the bankruptcies of WorldCom and US Airways, which resulted in a 2.6% decrease in average occupancy rates and an \$8.7 million decrease in rental revenue for the six months ended June 30, 2003. In addition, during 2002 and the six months ended June 30, 2003, approximately 2.3 million square feet of development properties were placed in-service which have leased-up slower than expected and, as a result, have decreased average occupancy rates by 1.1%. In addition, lease termination fees decreased \$1.3 million for the six months ended June 30, 2003. These decreases were offset by the write-off of \$3.1 million of straight-line rent attributable to the WorldCom bankruptcy for the six months ended June 30, 2002.

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Same property rental revenue, generated from 34.7 million square feet of 464 wholly-owned in-service properties on January 1, 2002, decreased \$11.5 million, or 5.2%, for the six months ended June 30, 2003 compared to the six months ended June 30, 2002. This decrease is primarily a result of lower same property average occupancy, which decreased from 88.9% in 2002 to 84.7% in 2003, and the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.5% decrease in same property average occupancy rates and a \$5.6 million decrease in rental revenue for the six months ended June 30, 2003.

During the six months ended June 30, 2003, 477 second generation leases representing 3.6 million square feet of office, industrial and retail space were executed. This was 7.0% lower than those of expired leases on an average rate per square foot. In addition, on a straight-line rent comparison basis, the average rate per square foot over the lease term for leases executed in the first six months of 2003 was 0.7% higher than the rent paid by previous customers.

Rental operating expenses from continuing operations (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) increased \$3.8 million, or 5.5%, from \$69.7 million for the six months ended June 30, 2002 to \$73.5 million for the six months ended June 30, 2003. The increase was a result of increases in snow removal, repairs and maintenance and certain fixed operating expenses that do not vary with net changes in our occupancy percentage. In addition, we placed 2.3 million square feet of development properties in-service during 2002 and 2003 which resulted in an increase in rental operating expenses from continuing operations.

Rental operating expenses as a percentage of rental revenue increased from 31.5% for the three months ended June 30, 2002 to 34.7% for the six months ended June 30, 2003. The increase in these expenses as a percentage of revenue was a result of the increases in rental operating expenses as described above and a decrease in rental revenue, primarily due to lower average occupancy and the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.6% decrease in average occupancy rates and a \$5.6 million decrease in rental revenue for the six months ended June 30, 2003.

Same property rental operating expenses, which are the expenses of 464 wholly-owned in-service properties on January 1, 2002, increased \$2.2 million, or 3.2%, for the six months ended June 30, 2003, compared to the six months ended June 30, 2002. The increase was a result of increases in snow removal, repairs and maintenance and certain fixed operating expenses that do not vary with net changes in our occupancy percentage.

Same property rental operating expenses as a percentage of related revenue increased from 30.5% for the six months ended June 30, 2002 to 33.2% for the six months ended June 30, 2003. The increase in these expenses as a percentage of revenue was a result of the increases described above and a decrease in same property rental revenue, primarily due to lower average occupancy and the bankruptcies of WorldCom and US Airways. These bankruptcies resulted in a 2.5% decrease in same property average occupancy rates and a \$5.6 million decrease in same property rental revenue for the six months ended June 30, 2003. In addition, operating expenses of \$487,609 that would have been paid by WorldCom if the leases were not rejected were paid by us and included in same property operating expenses during the six months ended June 30, 2003.

Depreciation and amortization from continuing operations for the six months ended June 30, 2003 and 2002 was \$64.8 million and \$57.7 million, respectively. The increase of \$7.1 million, or 12.3%, was due to an increase in amortization related to leasing commissions and tenant improvement expenditures for properties placed in-service during 2002 and the six months ended June 30, 2003 and the write-off of deferred leasing costs and tenant improvements for customers that vacate their space prior to lease expiration. This increase was partially offset by a decrease in depreciation for properties disposed of during 2002 that are not classified as discontinued operations in accordance with SFAS 144.

Interest expense from continuing operations increased \$3.9 million, or 7.4%, from \$53.0 million for the six months ended June 30, 2002 to \$56.9 million for the six months ended June 30, 2003. The increase was primarily attributable to the decrease in capitalized interest for the six months ended June 30, 2003 and 2002, which was \$715,247 and \$6.6 million, respectively. In addition, average interest rates increased from 6.9% in the six months ended June 30, 2002 to 7.1% in the six months ended June 30, 2003. Partly offsetting these increases was a decrease in the average outstanding debt balance from the six months ended June 30, 2002 to the six months ended June 30, 2003. Interest expense for the six months ended June 30, 2003 and 2002 included \$1.4 million and \$680,623, respectively, of amortization of deferred financing costs.

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General and administrative expenses as a percentage of total revenue, which includes rental revenue and interest and other income for both continuing and discontinued operations and equity in earnings of unconsolidated affiliates, was 5.1% for the six months ended June 30, 2003 and 5.6% for the six months ended June 30, 2002. The decrease was a result of a nonrecurring compensation charge of \$3.7 million recorded during the six months ended June 30, 2002, which was related to the exercise of stock options. Partly offsetting this decrease was an increase in general and administrative expenses as a result of the decrease of capitalization of these costs due to the decrease in development activity in 2003 and an increase in deferred compensation as a result of the issuance of additional restricted stock during 2002 and the six months ended June 30, 2003. In addition, rental revenue and equity in earnings of unconsolidated affiliates decreased from the six months ended June 30, 2002 to the six months ended June 30, 2003.

Interest and other income from continuing operations increased \$83,038, or 1.7%, from \$6.0 million for the six months ended June 30, 2002 to \$6.1 million for the six months ended June 30, 2003. The increase primarily resulted from an increase in leasing and management fee income and a Tax Increment Financing refund in the six months ended June 30, 2003. Partly offset by these increases was a decrease in interest income in the six months ended June 30, 2003 due to the collection of notes receivable during 2002 and a decrease in development fee income.

Equity in earnings of unconsolidated affiliates decreased \$3.7 million from \$5.0 million for the six months ended June 30, 2002 to \$1.3 million for the six months ended June 30, 2003. The decrease was primarily a result of a charge of \$2.4 million which represents our proportionate share of the impairment loss of \$12.1 million recorded by the MG-HIW, LLC joint venture in the six months ended June 30, 2003 related to the acquisition of the assets of the MG-HIW, LLC joint venture (See Note 11 to the Consolidated Financial Statements for further discussion).

Gain on disposition of land and depreciable assets decreased \$8.7 million, or 77.7%, to \$2.5 million for the six months ended June 30, 2003 from \$11.2 million for the six months ended June 30, 2002. In the six months ended June 30, 2003, the majority of the gain was comprised of a gain of \$1.6 million related to the disposition of 12.43 acres of land and a gain of approximately \$1.0 million related to the condemnation of 4.0 acres of Bluegrass land, which is discussed further in Note 3 to the Consolidated Financial Statements. Partly offsetting this gain was an impairment loss of \$295,587 related to two land parcels held for sale at June 30, 2003. In the six months ended June 30, 2002, the majority of the gain was comprised of a gain related to the disposition of 524,212 square feet of office properties that did not meet certain conditions to be classified as discontinued operations as described in Note 6 to the Consolidated Financial Statements and a gain on the disposition of two acres of land, partly offset by a loss related to the disposition of 50.81 acres of land.

In accordance with SFAS 144, we classified net income of \$7.4 million and \$10.0 million, net of minority interest, as discontinued operations for the six months ended June 30, 2003 and 2002, respectively, which pertained to 2.3 million square feet of property and four apartment units sold during 2002 and 2003 and 3.1 million square feet of property, 88 apartment units and 115.04 acres of revenue-producing land held for sale at June 30, 2003. We also classified gains of \$1.2 million and \$1.9 million, net of minority interest, as discontinued operations for the six months ended June 30, 2003 and 2002, respectively.

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 2003 as compared to the first six months of 2002 (\$ in thousands):

	Six Months Ended June 30,		
	2003	2002	Change
Cash Provided By Operating Activities	\$ 73,873	\$ 97,690	\$(23,817)
Cash (Used In)/Provided By Investing Activities	(13,623)	66,799	(80,422)
Cash Used in Financing Activities	(58,242)	(150,871)	92,629
Total Cash Flows	\$ 2,008	\$ 13,618	\$(11,610)

Cash provided by operating activities was \$73.9 million for the six months ended June 30, 2003 and \$97.7 million for the six months ended June 30, 2002. The decrease of \$23.8 million was primarily a result of a decrease in average occupancy rates for our wholly-owned portfolio and the bankruptcies of WorldCom and US Airways. In

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addition, the level of net cash provided by operating activities is affected by the timing of receipt of revenue and payment of expenses.

Cash used in investing activities was \$13.6 million for the six months ended June 30, 2003 and cash provided by investing activities was \$66.8 million for the six months ended June 30, 2002. The decrease of \$80.4 million was primarily a result of a decrease in proceeds from dispositions of real estate assets of approximately \$89.6 million, and a decrease in investments in notes receivable of \$5.9 million, partly offset by a decrease in additions to real estate assets of approximately \$6.8 million and an increase in distributions from joint ventures and other investing activities of \$8.2 million for the six months ended June 30, 2003.

Cash used in financing activities was \$58.2 million for the six months ended June 30, 2003 and \$150.9 million for the six months ended June 30, 2002. The decrease was primarily a result of a decrease of \$104.3 million in net repayments on the unsecured revolving loan, mortgages and notes payable and a decrease of \$9.2 million in distributions paid, partly offset by an increase of \$13.9 million for the repurchase of common stock and units for the six months ended June 30, 2003.

Capitalization. Based on our total market capitalization of \$3.3 billion at June 30, 2003 (at the June 30, 2003 stock price of \$22.30 and assuming the redemption for shares of Common Stock of the 6.6 million Common Units of minority interest in the Operating Partnership), our debt represented approximately 48.0% of our total market capitalization. Our total indebtedness at June 30, 2003 was \$1.6 billion and was comprised of \$657.3 million of secured indebtedness with a weighted average interest rate of 7.5% and \$922.0 million of unsecured indebtedness with a weighted average interest rate of 6.7%. We do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. For further discussion of our long-term liquidity needs, see “Current and Future Cash Needs.”

The following table sets forth the principal payments due on our mortgages and notes payable as of June 30, 2003, adjusted for the July 17, 2003 amendment to the Revolving Loan (\$ in thousands):

	<u>Total</u>	<u>Within 1 year</u>	<u>Within 2 years</u>	<u>Within 3 years</u>	<u>Within 4 years</u>	<u>Within 5 years</u>	<u>Thereafter</u>
Fixed Rate Debt:							
<i>Unsecured:</i>							
Put Option Notes (1)	\$ 100,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$100,000
Notes	706,500	246,500	—	—	110,000	100,000	250,000
<i>Secured:</i>							
Mortgages and loans payable	653,092	12,635	54,302	40,540	80,969	11,483	453,163
Total Fixed Rate Debt	1,459,592	259,135	54,302	40,540	190,969	111,483	803,163
Variable Rate Debt:							
<i>Unsecured:</i>							
Term Loan	20,000	—	—	20,000	—	—	—
Revolving Loan	95,500	—	—	—	95,500	—	—
<i>Secured:</i>							
Mortgage loan payable	4,173	242	272	285	3,374	—	—
Total Variable Rate Debt	119,673	242	272	20,285	98,874	—	—
Total Long Term Debt	\$1,579,265	\$259,377	\$54,574	\$60,825	\$289,843	\$111,483	\$803,163

- (1) 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.

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Secured Indebtedness

The mortgage and loans payable and the secured revolving loan were secured by real estate assets with an aggregate carrying value of \$1.1 billion at June 30, 2003.

On February 2, 1998, the Operating Partnership sold \$125.0 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bore an interest rate of 6.835% from the date of issuance through January 31, 2003. On January 31, 2003, the interest rate was changed to 8.975% pursuant to the interest rate reset provisions of the MOPPRS. On February 3, 2003, the Operating Partnership repurchased 100.0% of the principal amount of the MOPPRS from the sole holder thereof in exchange for a secured note in the principal amount of \$142.8 million. The secured note bears interest at a fixed rate of 6.03% and has a maturity date of February 28, 2013.

Unsecured Indebtedness

The Operating Partnership's unsecured notes of \$806.5 million bear interest rates ranging from 6.75% to 8.125% with interest payable semi-annually in arrears. Any 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 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.

On July 17, 2003, we amended and restated our existing revolving loan. The amended and restated \$250.0 million revolving loan (the "Revolving Loan") is from a group of ten lender banks, matures in July 2006 and replaces our previous \$300.0 million revolving loan. The Revolving Loan carries an interest rate based upon our senior unsecured credit ratings. As a result, interest would currently accrue on borrowings under the Revolving Loan at an average rate of LIBOR plus 105 basis points. The terms of the Revolving Loan require us to pay an annual facility fee equal to .25% of the aggregate amount of the Revolving Loan. 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 Baa3 assigned by Moody's Investor Service. In April 2003, Moody's Investor Service placed our credit ratings on review for potential downgrade. We cannot provide any assurances that this or the other rating agencies will not change our credit ratings. If any of our credit ratings are lowered, the interest rate on borrowings under our revolving loan would be automatically increased.

The terms of the revolving loan and the indenture that governs our outstanding notes require us to comply with certain operating and financial covenants and performance ratios. We are currently in compliance with all such requirements. Although we expect to remain in compliance with the covenants and ratios under our revolving loans for at least the next several quarters, depending upon our future operating performance, we cannot assure you that we will continue to be in compliance.

The following table sets forth more detailed information about our ratio and covenant compliance under the revolving loan assuming the new Revolving Loan had been in effect at June 30, 2003. Certain of these definitions may differ from similar terms used in the consolidated financial statements and may, for example, consider our proportionate share of investments in unconsolidated affiliates. For a more detailed discussion of the covenants in our revolving loan, including definitions of certain relevant terms, see the credit agreement governing our revolving loan which is attached as Exhibit 10.

	June 30, 2003 Proforma
Total Liabilities Less Than or Equal to 57.5% of Total Assets	52.3%
Unencumbered Assets Greater Than or Equal to 2 times Unsecured Debt	2.21
Secured Debt Less Than or Equal to 35% of Total Assets	23.5%
Adjusted EBITDA Greater Than 2.10 times Interest Expense	2.33
Adjusted EBITDA Greater Than 1.55 times Fixed Charges	1.74
Adjusted NOI Unencumbered Assets Greater Than 2.25 times Interest on Unsecured Debt	2.56
Tangible Net Worth Greater Than \$1.575 Billion	\$ 1.7billion
Restricted Payments, Including Distributions to Shareholders, Less Than or Equal to 95% of CAD	67.0%

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The following table sets forth more detailed information about the Operating Partnership's ratio and covenant compliance under the Operating Partnership's indenture as of June 30, 2003. Certain of these definitions may differ from similar terms used in the consolidated financial statements and may, for example, consider our proportionate share of investments in unconsolidated affiliates. For a more detailed discussion of the covenants in our indenture, including definitions of certain relevant terms, see the indenture governing our unsecured notes which is incorporated by reference in our 2002 Annual Report as Exhibit 4.2.

	June 30, 2003
Overall Debt Less Than or Equal to 60% of Adjusted Total Assets	40.8%
Secured Debt Less Than or Equal to 40% of Adjusted Total Assets	16.8%
Income Available for debt service Greater Than 1.50 times Annual Service Charge	2.8
Total Unencumbered Assets Greater Than 200% of Unsecured Debt	298.9%

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, any guarantee obligations and ordinary 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 approximately \$10.4 million in general and non-recurring renovations at certain properties. In addition, we could incur tenant improvements and lease commissions related to any releasing of space previously leased by WorldCom and US Airways.

In addition to the requirements discussed above, our short-term (within the next 12 months) liquidity requirements also include the funding of our existing development activity, selective asset acquisitions and first generation tenant improvements and lease commissions on properties placed in service that are not fully leased. 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 \$198.0 million of availability as of July 17, 2003);
- the selective disposition of non-core assets or other assets the sale of which can generate attractive returns;
- 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, 2003, we had \$2.5 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, our ability to make the expected distributions to stockholders discussed below and satisfy other cash payments may be adversely affected.

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Commitments and Contingencies. In connection with several of our joint ventures with unaffiliated parties, we have agreed to guarantee certain rent shortfalls and re-tenanting costs for certain properties contributed or sold to the joint ventures during 1999, 2000 and 2002. As of June 30, 2003, we had \$16.5 million accrued for obligations related to these agreements. We believe that our estimates related to these agreements are adequate. However, if our assumptions and estimates are incorrect future losses may occur.

In accordance with FIN 45, we have included \$1.9 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$1.9 million on its consolidated balance sheet at June 30, 2003 related to two separate guarantees of a construction loan agreement and a construction completion agreement entered into by the Plaza Colonnade LLC joint venture, in which we are a 50.0% owner. The term of the construction loan agreement is February 2003 through February 14, 2006, with two one-year options to extend the maturity date that are conditional on completion and lease-up of the project. The term of the construction completion agreement requires the core and shell of the building to be complete by December 15, 2005. Both guarantees arose from the formation of the joint venture to construct an office building. If the joint venture was unable to repay the outstanding balance under the construction loan agreement or complete the construction of the office building, we would be required, under the terms of the agreements, to repay the outstanding balance under the construction loan and complete the construction of the office building. The maximum potential amount of future payments by us under these agreements is \$34.9 million.

In addition, we have guaranteed our 80.0% partner in MG-HIW, LLC joint venture, Miller Global, a minimum internal rate of return on \$50.0 million of their equity investment in the joint venture's Orlando assets.

Certain properties owned in joint ventures with unaffiliated parties have buy/sell options that may be exercised to acquire the other partner's interest by either us or our joint venture partner if certain conditions are met as set forth in the respective joint venture agreement. Our partner in SF-HIW Harborview, LP has the right to put its 80.0% equity interest in the partnership to us in cash at anytime during the one-year period commencing on September 11, 2014. The value of the equity interest will be determined based upon the then fair market value of SF-HIW Harborview, LP assets and liabilities.

In connection with the November 26, 2002 disposition of 225,000 square feet of property, fully leased to Capital One Services, Inc., a subsidiary of Capital One Financial Services, Inc., we agreed to guarantee any rent shortfalls and re-tenanting costs for a five year period of time from the date of sale. Our contingent liability as of June 30, 2003 is \$18.5 million. Because of this guarantee, in accordance with GAAP, we have deferred the gain of approximately \$6.9 million, which will be recognized when the contingency period is concluded.

We are a party to a variety of legal proceedings arising in the ordinary course of our business. We believe that we are adequately covered by insurance and indemnification agreements. Accordingly, none of such proceedings are expected to have a material adverse effect on our business, financial condition and results of operation.

Joint Ventures. During the past several years, in order to generate additional capital, 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 and the results of operations of the ventures are not included on our income statement, other than as equity in earnings of unconsolidated affiliates.

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The following table sets forth information regarding our joint venture activity as recorded on the respective joint venture's books at June 30, 2003 and December 31, 2002 (\$ in thousands):

		June 30, 2003			December 31, 2002		
	Percent						
	Owned	Total Assets	Debt	Total Liabilities	Total Assets	Debt	Total Liabilities
Balance Sheet Data:							
Board of Trade Investment Company	49.00%	\$ 8,117	\$ 835	\$ 1,208	\$ 7,778	\$ 919	\$ 1,071
Dallas County Partners	50.00%	42,597	38,461	41,354	44,128	38,904	41,285
Dallas County Partners II	50.00%	18,623	23,040	24,369	18,900	23,587	24,874
Fountain Three	50.00%	34,895	30,452	32,605	37,159	30,958	32,581
RRHWoods, LLC	50.00%	81,285	66,584	70,241	82,646	68,561	71,767
Kessinger/Hunter, LLC	26.50%	8,749	—	428	12,929	—	888
4600 Madison Associates, LP	12.50%	22,412	17,059	17,585	23,254	17,385	17,896
Schweiz-Deutschland-USA							
DreilanderBeteiligung Objekt DLF 98/29-							
Walker Fink-KG	22.81%	140,834	67,733	70,003	141,147	68,209	70,482
Dreilander-Fonds 97/26 and 99/32	42.93%	117,218	59,364	62,101	119,134	59,688	62,601
Highwoods-Markel Associates, LLC	50.00%	14,822	11,610	11,758	16,026	11,625	12,583
MG-HIW, LLC	20.00%(1)	340,246	242,240	250,038	355,102	242,240	249,340
MG-HIW Peachtree Corners III, LLC	50.00%(2)	5,334	4,286(2)	4,337	3,809	2,494	2,823
MG-HIW Metrowest I, LLC	50.00%(3)	1,601	—	14	1,601	—	3
MG-HIW Metrowest II, LLC	50.00%(3)	9,879	5,819(3)	6,021	9,600	5,372	5,540
Concourse Center Associates, LLC	50.00%	14,646	9,778	10,072	14,896	9,859	10,193
Plaza Colonnade, LLC	50.00%	11,236	2,727(4)	3,587	3,591	—	3
SF-HIW Harborview, LP	20.00%	40,547	22,800	24,702	41,134	22,800	25,225
Total		\$913,041	\$602,788	\$630,423	\$932,834	\$602,601	\$629,155

- (1) On July 29, 2003, we acquired the assets and/or our partner's 80.0% equity interests related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC in Atlanta, Raleigh and Tampa. Additionally, we have entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC located in Orlando. Total assets at June 30, 2003 include a \$12.1 million impairment charge at the partnership level related to this acquisition. (See Note 11 to the Consolidated Financial Statements for further discussion).
- (2) On July 29, 2003, Miller Global assigned to us their 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC. The construction loan, which was made to this joint venture by an affiliate of the Company had an interest rate of LIBOR plus 200 basis points and was paid in full on July 29, 2003 in connection with the assignment.
- (3) On July 29, 2003 we entered into an option agreement to acquire Miller Global's 50.0% interest for \$3.2 million in the remaining assets encompassing 87,832 square feet of property of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC. The \$7.4 million construction loan to fund the development of this property, of which \$5.8 million is outstanding at June 30, 2003, will be either paid in full or assumed by us in connection with the acquisition of the remaining assets.
- (4) On February 12, 2003, Plaza Colonnade, LLC signed a \$61.4 million construction loan to fund the development of this property. The loan requires that the joint venture invest \$8.4 million, \$4.2 million of which will be our share. We and our partners in this joint venture have each guaranteed 50.0% of the loan. (See Note 10 to the Consolidated Financial Statements for further discussion on the guarantees).

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The following table sets forth information regarding our joint venture activity as recorded on the respective joint venture's books during the six months ended June 30, 2003 and 2002 (\$ in thousands):

		June 30, 2003					June 30, 2002				
	Percent										
	Owned	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)
Income Statement Data:											
Board of Trade Investment Company	49.00%	\$ 1,215	\$ 791	\$ 34	\$ 200	\$ 190	\$ 1,355	\$ 869	\$ —	\$ 159	\$ 327
Dallas County Partners	50.00%	5,380	2,757	1,389	982	252	5,697	2,594	1,326	915	862
Dallas County Partners II	50.00%	3,123	1,294	1,190	411	228	3,006	1,308	1,243	531	(76)
Fountain Three	50.00%	3,562	1,514	1,141	796	111	3,351	1,254	1,022	636	439
RRHWoods, LLC	50.00%	6,949	3,606	1,346	1,706	291	6,806	3,394	1,447	1,733	232
Kessinger/Hunter, LLC	26.50%(1)	2,927	2,396	—	331	200	3,306	2,482	—	337	487
4600 Madison Associates, LP	12.50%	2,840	1,078	595	887	280	2,591	1,003	617	817	154
Schweiz-Deutschland-USA											
DreilanderBeteiligung Objekt DLF 98/29-											
Walker Fink-KG	22.81%	9,673	2,747	2,303	1,728	2,895	10,501	2,703	2,334	1,687	3,777
Dreilander-Fonds 97/26 and 99/32	42.93%	8,106	2,215	2,302	2,007	1,582	8,472	2,161	2,321	1,980	2,010
Highwoods-Markel Associates, LLC	50.00%	1,636	861	558	299	(82)	1,580	849	481	264	(14)
MG-HIW, LLC	20.00%(2)	24,573	8,975	4,643	4,729	6,226(3)	26,174	8,760	5,428	4,069	7,917
MG-HIW Peachtree Corners III, LLC	50.00%(4)	175	62	62	43	8	—	10	—	11	(21)
MG-HIW Rocky Point, LLC	50.00%	—	—	—	—	—	1,813	555	271	248	739
MG-HIW Metrowest I, LLC	50.00%(4)	—	16	—	—	(16)	—	13	—	—	(13)
MG-HIW Metrowest II, LLC	50.00%(4)	266	223	83	162	(202)	127	125	—	119	(117)
Concourse Center Associates, LLC	50.00%	1,028	269	346	151	262	1,065	268	332	151	314
Plaza Colonnade, LLC	50.00%	8	—	—	2	6	—	—	—	—	—
SF-HIW Harborview, LP	20.00%	2,806	850	701	433	822	—	—	—	—	—
Total		\$ 74,267	\$ 29,654	\$ 16,693	\$14,867	\$ 13,053	\$ 75,844	\$ 28,348	\$ 16,822	\$13,657	\$ 17,017

- (1) We decreased our ownership percentage from 30.00% at June 30, 2002 to 26.50% at June 30, 2003.
- (2) On July 29, 2003, we acquired the assets and/or our partner's 80.0% equity interests related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC in Atlanta, Raleigh and Tampa. Additionally, we have entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC located in Orlando. (See Note 11 to the Consolidated Financial Statements for further discussion).
- (3) Net income excludes a \$12.1 million impairment charge at the partnership level of which our share is \$2.4 million. (See Note 11 to the Consolidated Financial Statements for further discussion). With the impairment charge, the joint venture had a net loss of \$5,838.
- (4) On July 29, 2003, we entered into an option agreement to acquire Miller Global's 50.0% interest for \$3.2 million in the remaining assets encompassing 87,832 square feet of property of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC and was assigned Miller Global's 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC.

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As of June 30, 2003, our joint ventures had approximately \$602.8 million of outstanding debt and the following table sets forth the principal payments due on that outstanding long-term debt as recorded on the respective joint venture's books at June 30, 2003 (\$ in thousands):

	Percent Owned	Percent						Thereafter
		Total	Within 1 year	Within 2 years	Within 3 years	Within 4 years	Within 5 years	
Board of Trade Investment Company	49.00%	\$ 835	\$ 177	\$ 191	\$ 206	\$ 223	\$ 38	\$ —
Dallas County Partners	50.00%	38,461	853	999	1,635	7,985	11,556	15,433
Dallas County Partners II	50.00%	23,040	1,180	1,307	1,446	1,601	1,772	15,734
Fountain Three	50.00%	30,452	1,065	1,145	1,230	1,321	6,735	18,956
RRHWoods, LLC	50.00%	66,584	360	391	417	446	4,198	60,772
4600 Madison Associates, LP	12.50%	17,059	687	736	788	844	904	13,100
Schweiz-Deutschland-USA DreilanderBeteiligung Objekt DLF 98/29-Walker Fink-KG	22.81%	67,733	1,001	1,071	1,145	1,226	1,311	61,979
Dreilander-Fonds 97/26 and 99/32	42.93%	59,364	687	741	800	864	932	55,340
Highwoods-Markel Associates, LLC	50.00%	11,610	96	107	115	125	133	11,034
MG-HIW, LLC	20.00%(1)	242,240	—	—	242,240	—	—	—
MG-HIW Peachtree Corners III, LLC	50.00%(2)	4,286(2)	4,286	—	—	—	—	—
MG-HIW Metrowest II, LLC	50.00%(3)	5,819(3)	—	5,819	—	—	—	—
Concourse Center Associates, LLC	50.00%	9,778	170	182	195	209	225	8,797
Plaza Colonnade, LLC	50.00%	2,727(4)	—	—	—	2,727	—	—
SF-HIW Harborview, LP	20.00%	22,800	—	—	—	—	277	22,523
Total		\$602,788(5)	\$10,562	\$12,689	\$250,217	\$17,571	\$28,081	\$283,668

- (1) On July 29, 2003, we acquired the assets and/or our partner's 80.0% equity interests related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC in Atlanta, Raleigh and Tampa. Additionally, we have entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC located in Orlando. (See Note 11 to the Consolidated Financial Statements for further discussion).
- (2) On July 29, 2003, Miller Global assigned to us their 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC. The construction loan, which was made to this joint venture by an affiliate of the Company had an interest rate of LIBOR plus 200 basis points and was paid in full on July 29, 2003 in connection with the assignment.
- (3) On July 29, 2003 we entered into an option agreement to acquire Miller Global's 50.0% interest for \$3.2 million in the remaining assets encompassing 87,832 square feet of property of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC. The \$7.4 million construction loan to fund the development of this property, of which \$5.8 million is outstanding at June 30, 2003, will be either paid in full or assumed by us in connection with the acquisition of the remaining assets.
- (4) On February 12, 2003, Plaza Colonnade, LLC signed a \$61.4 million construction loan to fund the development of a property. The loan requires that the joint venture invest \$8.4 million, \$4.2 million of which will be our share. We and our partners in this joint venture have each guaranteed 50.0% of the loan. As of June 30, 2003, Plaza Colonnade, LLC has borrowed \$2.7 million under this loan. (See Note 10 to the Consolidated Financial Statements for further discussion on the guarantees).
- (5) All of this joint venture debt is non-recourse to us except in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and those guarantees and loans described in the footnotes above.

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 revolving loan bears 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.

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The following table sets forth information regarding our interest rate hedge contracts as of June 30, 2003 (\$ in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Interest Rate Swap	\$20,000	12/1/2013	3 month USD-LIBOR-BBA	3.916%	\$ 202
Interest Rate Swap	\$15,000	12/1/2013	3 month USD-LIBOR-BBA	3.925%	\$ 141
Interest Rate Swap	\$15,000	12/1/2013	3 month USD-LIBOR-BBA	3.928%	\$ 138
Interest Rate Swap	\$20,000	1/2/2004	1 month USD-LIBOR-BBA	0.990%	\$ 5
Interest Rate Swap	\$20,000	6/1/2005	1 month USD-LIBOR-BBA	1.590%	\$ (11)
					<u>\$ 475</u>

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. No payments were received or made to counterparties under interest rate hedge contracts during the six months ended June 30, 2003.

Share and Unit Repurchase Program. During the quarter ended June 30, 2003, we repurchased a total of 648,264 shares of Common Stock and Common Units at a weighted average price of \$20.84 per share/unit. Since commencement of our initial share repurchase program in December 1999, we have repurchased 12.2 million shares of Common Stock and Common Units at a weighted average price of \$24.02 per share/unit for a total purchase price of \$294.2 million. 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. On April 24, 2003, we announced that the Company's Board of Directors authorized the repurchase of up to an additional 2.5 million shares of Common Stock and Common Units. We have 5.3 million shares/units remaining under our currently authorized repurchase programs.

Capital Recycling Program. During the remainder of 2003, we expect to continue our capital recycling program of selectively disposing of non-core properties or other properties the sale of which can generate attractive returns. At June 30, 2003, we had 3.1 million square feet of office properties and 330.7 acres of land under letter of intent or contract for sale in various transactions with a carrying value of \$201.1 million. These transactions are subject to customary closing conditions, including zoning, due diligence and documentation, and are projected to close during 2003. However, we can provide no assurance that all or parts of these transactions will be consummated.

We expect to use substantially all of the net proceeds from our disposition activity for one or all of the following purposes:

- reduce our outstanding debt;
- repurchase Common Stock subject to the factors discussed above under "Share and Unit Repurchase Program"; and
- acquire selective assets.

Distributions to Stockholders. To maintain our qualification as a REIT, we must distribute to stockholders at least 90.0% of REIT taxable income. We generally expect to use our cash flow from operating activities for distributions to shareholders 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:

- debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness;
- scheduled increases in base rents of existing leases;
- changes in rents attributable to the renewal of existing leases or replacement leases;

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- changes in occupancy rates at existing properties and execution of leases for newly acquired or developed properties; and
- operating expenses and capital replacement needs.

Based on management's current expectation of future operating performance, we believe that cash available for distribution will continue to decrease in 2003 as compared to 2002 due to lower funds from operations and higher expected capital expenditures per square foot related to the signing of new leases. As a result of these factors, on April 24, 2003, we announced that our Board of Directors had reduced the annual dividend rate from \$2.34 per share to \$1.70 per share. Accordingly, on April 24, 2003 and July 29, 2003, a \$0.425 cash dividend was declared by our Board of Directors for the quarters ended March 31, 2003 and June 30, 2003, respectively. Any future distributions will be made at the discretion of the Company's Board of Directors and will depend upon the factors discussed above.

We have paid the following per share dividends during the past two years and the six months ended June 30, 2003:

<u>Quarter Ended</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
March 31	\$0.585	\$0.585	\$ 0.57
June 30	\$0.425	\$0.585	\$ 0.57
September 30		\$0.585	\$0.585
December 31		\$0.585	\$0.585

Impact of Recently Issued Accounting Standards

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which changes the accounting for, and disclosure of, certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require us to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or equity security of the guaranteed party. In accordance with FIN 45, we have included \$1.9 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$1.9 million on our consolidated balance sheet at June 30, 2003 related to two separate guarantees of a construction loan agreement and a construction completion agreement entered into by the Plaza Colonnade, LLC joint venture, in which we are a 50.0% owner. (See Note 10 to the Consolidated Financial Statements for further discussion).

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"), which amends FASB No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements related to the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2002. On January 1, 2003, we adopted the fair value recognition provision prospectively for all awards granted after January 1, 2003. Under this provision, total compensation expense related to stock options is determined using the fair value of the stock options on the date of grant and is recognized on a straight-line basis over the option vesting period. Prior to 2003, we accounted for stock options under this plan under the guidance of APB Opinion 25 "Accounting for Stock Issued to Employees and Related Interpretations."

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In accordance with SFAS 148, we have included in general and administrative expenses in our consolidated statement of income, \$25,748 of amortization related to the vesting of stock options granted during the six months ended June 30, 2003. In addition, we have included in stockholders' equity in our consolidated balance sheet at June 30, 2003 the total grant value of \$308,985. See below for the amounts that would have been deducted from net income if we had elected to expense the fair value of all stock option awards that had vested rather than those awards issued subsequent to January 1, 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(\$ in thousands, except per share amounts)				
Net income, as reported	\$10,120	\$27,750	\$21,292	\$54,622
Add: Stock option expense included in reported net income	19	—	25	—
Deduct: Total stock option expense determined under fair value recognition method for all awards	(196)	(217)	(360)	(433)
Pro forma net income	\$ 9,943	\$27,533	\$20,957	\$54,189
Basic net income per common share—as reported	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73
Basic net income per common share—pro forma	\$ 0.04	\$ 0.37	\$ 0.10	\$ 0.73
Diluted net income per common share—as reported	\$ 0.05	\$ 0.37	\$ 0.11	\$ 0.73
Diluted net income per common share—pro forma	\$ 0.04	\$ 0.37	\$ 0.10	\$ 0.72

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("VIEs")" ("FIN 46"), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights and to determine when and which business enterprise should consolidate the VIEs. This new model applies when either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without additional financial support. In addition, FIN 46 requires additional disclosures. For our interest in VIEs owned at January 31, 2003, FIN 46 will be effective July 1, 2003. FIN 46 is in effect for interests in VIEs acquired subsequent to January 31, 2003. We are assessing the impact of this interpretation on our accounting for investments in unconsolidated joint ventures owned at January 31, 2003.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with some exceptions, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of SFAS No. 149 do not have a material impact on our financial condition and results of operations.

In May of 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective July 1, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of this Statement and still existing at the beginning of the interim period of adoption. We are assessing the impact of SFAS on our financial condition and results of operation.

Funds From Operations and Cash Available for Distributions

We consider funds from operations ("FFO") and cash available for distributions ("CAD") to be useful financial performance measures of the operating performance of an equity REIT. Together with net income and cash flows from operating, investing and financing activities, FFO and CAD provide an additional basis to evaluate the ability of a REIT to incur and service debt, fund acquisitions and other capital expenditures and pay distributions. FFO and

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CAD do not represent net income or cash flows from operating, investing or financing activities as defined by GAAP. They should not be considered as alternatives to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. FFO and CAD do 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.

Our calculation of FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), is as follows:

- Net income (loss)—computed in accordance with GAAP;
- Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- Less gains (or plus losses) from sales of depreciable operating properties, including impairment, and items that are classified as extraordinary items under GAAP;
- Plus minority interest;
- Less dividends to preferred shareholders;
- Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization, gain/(loss) on sale and minority interest related to discontinued operations.

CAD is defined as FFO reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space. In addition, CAD includes both recurring and nonrecurring operating results. As a result, nonrecurring items that are not defined as “extraordinary” under GAAP are reflected in the calculation of CAD. In addition, nonrecurring items included in the calculation of CAD for periods ended after March 28, 2003 meet the requirements of Item 10(e) of Regulation S-K, as amended January 22, 2003.

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FFO and CAD for the three and six months ended June 30, 2003 and 2002 are summarized in the following table (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Funds from operations:				
Net income	\$ 10,120	\$ 27,750	\$ 21,292	\$ 54,622
Add/(Deduct):				
Depreciation and amortization	32,412	28,955	64,856	57,666
Gain on disposition of depreciable assets	(220)	(4,203)	(240)	(5,379)
Minority interest	656	2,851	1,702	5,845
Dividends to preferred shareholders	(7,713)	(7,713)	(15,426)	(15,426)
Unconsolidated affiliates:				
Depreciation and amortization	2,489	2,149	4,904	4,633
Loss on disposition of depreciable assets	2,413	—	2,413	—
Discontinued operations (1):				
Depreciation and amortization	369	2,613	1,219	5,268
Gain on sale, net of minority interest	(1,345)	(1,886)	(1,175)	(1,886)
Minority interest in income	476	631	943	1,364
	<u>39,657</u>	<u>51,147</u>	<u>80,488</u>	<u>106,707</u>
Cash available for distribution:				
Add/(Deduct):				
Rental income from straight-line rents	(1,680)	1,049(2)	(3,365)	(1,318)
Non-recurring compensation expense	—	3,514	—	3,700
Amortization of deferred financing costs	757	341	1,383	680
Non-incremental revenue generating capital expenditures:				
Building improvements paid	(2,734)	(2,370)	(5,525)	(3,121)
Second generation tenant improvements paid	(6,932)	(3,380)	(11,420)	(6,911)
Second generation lease commissions paid	(3,546)	(3,049)	(6,914)	(5,659)
	<u>(13,212)</u>	<u>(8,799)</u>	<u>(23,859)</u>	<u>(15,691)</u>
	<u>\$ 25,522</u>	<u>\$ 47,252</u>	<u>\$ 54,647</u>	<u>\$ 94,078</u>
Per common share/common unit-diluted:				
Funds from operations	\$ 0.66	\$ 0.84	\$ 1.34	\$ 1.76
Dividends paid	\$ 0.425	\$ 0.585	\$ 1.01	\$ 1.17
Dividend payout ratios:				
Funds from operations	64.3%	69.6%	75.5%	66.6%
Cash available for distribution	100.0%	75.3%	111.3%	75.6%
Weighted average shares/units outstanding—basic (3)	<u>59,983</u>	<u>60,363</u>	<u>60,147</u>	<u>60,316</u>
Weighted average shares/units outstanding—diluted (3)	<u>60,028</u>	<u>60,849</u>	<u>60,193</u>	<u>60,767</u>
Net cash provided by/(used in):				
Operating activities	\$ 35,067	\$ 54,868	\$ 73,873	\$ 97,690
Investing activities	\$ 6,565	\$ 54,361	\$(13,623)	\$ 66,799
Financing activities	\$(47,811)	\$(98,898)	\$(58,242)	\$(150,871)
Net (decrease)/increase in cash and cash equivalents	<u>\$ (6,179)</u>	<u>\$ 10,331</u>	<u>\$ 2,008</u>	<u>\$ 13,618</u>

(1) For further discussion related to discontinued operations, see Note 6 of the Consolidated Financial Statements.

- (2) Includes a \$3.1 million write-off of straight-line rent receivables from WorldCom.
- (3) 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.

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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 customers 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.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving loan bears interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured 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.

Certain Variable Rate Debt. As of June 30, 2003, we had approximately \$119.7 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 ending June 30, 2004 our interest expense would be increased or decreased approximately \$1.2 million.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contracts in effect at June 30, 2003, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Interest Rate Hedging Activities.” If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of June 30, 2003 would increase by approximately \$4.8 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of June 30, 2003 would decrease by approximately \$4.3 million.

In addition, we are exposed to certain losses in the event of nonperformance by the counterparties under the hedge contracts. We expect the counterparties, which are major financial institutions, to perform fully under these contracts. However, if the counterparties were to default on their obligations under the interest rate hedge contracts, we could be required to pay the full rates on our debt, even if such rates were in excess of the rates in the contracts.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures are further designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. SEC rules require that we disclose the conclusions of our CEO and CFO about the effectiveness of our disclosure controls and procedures.

The CEO/CFO evaluation of our disclosure controls and procedures included a review of the controls’ objectives and design, the controls’ implementation by the Company and the effect of the controls on the information generated for use in this Quarterly Report. In the course of the evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. Our disclosure controls and procedures are also evaluated on an ongoing basis by the following:

- employees in our internal audit department;
- other personnel in our finance organization;

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- members of our internal disclosure committee; and
- members of the audit committee of our Board of Directors.

Among other matters, we sought in our evaluation to determine whether there were any “significant deficiencies” or “material weaknesses” in our disclosure controls and procedures, or whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures. In the professional auditing literature, “significant deficiencies” are referred to as “reportable conditions,” which are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A “material weakness” is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on the most recent evaluation, which was completed within 90 days prior to the filing of this Quarterly Report, our CEO and CFO believe that our disclosure controls and procedures are effective to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our disclosure controls and procedures are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with GAAP.

Since the date of this most recent evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation.

PART II—OTHER INFORMATION

Item 5. Submission of Matters to a Vote of Security Holders

(a) On May 19, 2003, 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	Broker Non-Vote	Abstain
(A) Election of Directors				
Gene M. Anderson	39,106,733	—	—	688,746
Ronald P. Gibson	39,117,744	—	—	677,735
O. Temple Sloan, Jr.	29,074,326	—	—	10,721,153
F. William Vandiver	38,926,598	—	—	868,881
William E. Graham, Jr.	39,096,474	—	—	699,005
(B) Ratify appointment of Ernst & Young, LLP as independent auditors	38,826,973	887,656	—	80,847
(C) Increase Authorized Common Stock	24,591,101	4,010,248	—	177,516

Item 6. Exhibits and Reports On Form 8-K

(a) Exhibits

Exhibit No.	Description
10	Amended and Restated Credit Agreement dated as of July 17, 2003 by and among Highwoods Realty Limited Partnership, Highwoods Properties, Inc., Highwoods Finance, LLC, Highwoods Services, Inc., Highwoods/Tennessee Holdings, L.P., certain subsidiaries of Highwoods Properties Inc. and the Lenders named therein
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

(b) Reports on Form 8-K

We filed a current report on Form 8-K, dated August 1, 2003, furnishing under Item 12, the Company's press release announcing the results of operations and financial condition of the Company for the three and six months ended June 30, 2003 and the Company's Supplemental Operating and Financial Information for the six months ended June 30, 2003.

We filed a current report on Form 8-K, dated April 25, 2003, furnishing under Items 9 and 12 the Company's press release announcing the results of operations and financial condition of the Company for the three months ended March 31, 2003.

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 7, 2003

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EXHIBIT 10.1

Execution Version

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 17, 2003

among

HIGHWOODS PROPERTIES, INC.,
HIGHWOODS SERVICES, INC.,
HIGHWOODS REALTY LIMITED PARTNERSHIP,
HIGHWOODS/TENNESSEE HOLDINGS, L.P.
AND
HIGHWOODS FINANCE, LLC

as Borrowers,

AND CERTAIN SUBSIDIARIES OF THE BORROWERS
FROM TIME TO TIME PARTY HERETO,
as Guarantors,

THE SEVERAL LENDERS
FROM TIME TO TIME PARTY HERETO

BANK OF AMERICA, N.A.,
as Administrative Agent,

BANC OF AMERICA SECURITIES LLC
as Sole Lead Arranger and
as Sole Book Manager

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Syndication Agent

BRANCH BANKING & TRUST COMPANY
and
FLEET NATIONAL BANK
as Co-Documentation Agents

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AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT dated as of July 17, 2003 (as amended, modified, restated or supplemented from time to time, the “Credit Agreement”), is by and among HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership (“Highwoods Realty”), HIGHWOODS PROPERTIES, INC., a Maryland corporation (“Highwoods Properties”), HIGHWOODS FINANCE, LLC, a Delaware limited liability company (“Highwoods Finance”), HIGHWOODS SERVICES, INC., a North Carolina corporation (“Highwoods Services”), and HIGHWOODS/TENNESSEE HOLDINGS, L.P., a Tennessee limited partnership (“Highwoods Tennessee”) (Highwoods Realty, Highwoods Properties, Highwoods Finance, Highwoods Services, and Highwoods Tennessee are hereinafter referred to individually as a “Borrower” and collectively as the “Borrowers”), the subsidiaries of the Borrowers identified on the signature pages hereto or from time to time joined pursuant to Section 7.12 hereof (such Subsidiaries are hereinafter referred to individually as a “Guarantor” and collectively as the “Guarantors”), the Lenders (as defined herein), BANK OF AMERICA, N.A., as Administrative Agent for the Lenders (in such capacity, the “Administrative Agent”), BANC OF AMERICA SECURITIES LLC, as Sole Lead Arranger (in such capacity, the “Sole Lead Arranger”) and Sole Book Manager (in such capacity, the “Sole Book Manager”), WELLS FARGO BANK, NATIONAL ASSOCIATION, as Syndication Agent (in such capacity, the “Syndication Agent”) and BRANCH BANKING & TRUST COMPANY and FLEET NATIONAL BANK OF AMERICA, as Co-Documentation Agents (in such capacity, the “Documentation Agent”).

WITNESSETH

WHEREAS, certain of the Lenders and other financial institutions have made available to the Borrowers a \$300,000,000 credit facility, on the terms and conditions contained in that certain Credit Agreement dated as of December 13, 2000 (as amended and in effect immediately prior to the date hereof, the “2000 Credit Agreement”) by and among the Borrowers, such Lenders, certain other financial institutions, the Administrative Agent and the other parties thereto;

WHEREAS, the Borrowers, the Lenders, the Administrative Agent and the other parties hereto desire to amend and restate the terms of the 2000 Credit Agreement in order to (a) reduce the amount of the credit facility provided thereunder to \$250,000,000 and (b) amend certain other terms thereof, all on the terms and conditions set forth herein and in the other Credit Documents (as amended as of the date hereof);

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree that the 2000 Credit Agreement is amended and restated in its entirety as follows:

SECTION 1

DEFINITIONS

1.1 Definitions .

As used in this Credit Agreement, the following terms shall have the meanings specified below unless the context otherwise requires:

“Acquired Properties” means, at any time, all interests in Properties purchased by any Borrower, any Consolidated Party or any unconsolidated affiliate thereof within the previous three (3) calendar months from any third party entity through an arms length transaction.

“Additional Credit Party” means each Person that becomes a Guarantor after the Closing Date by execution of a Joinder Agreement.

“Adjusted Base Rate” means the Base Rate plus the Applicable Percentage.

“ Adjusted EBITDA ” means, for any period, the sum of (a) EBITDA for such period less (b) aggregate Capital Expenditure Reserves for all Properties with respect to such period; provided, that such sum shall be exclusive of any adjustment for such period attributable to the Straight-Lining of Rents.

“ Adjusted Eurodollar Rate ” means the Eurodollar Rate plus the Applicable Percentage.

“ Adjusted Investment Value ” means, as of any date, (a) with respect to the ratio specified in Section 7.11(m), the sum of (i) the total assets as of such date, as determined in accordance with GAAP, of Non-Wholly Owned Subsidiaries which are Credit Parties, less (ii) that portion thereof attributable to the owners thereof other than the Borrowers or any Wholly Owned Subsidiary, and (b) with respect to the ratio specified in Section 7.11(n), the sum of (i) investments in any Minority Interest Entities as of such date of determination, plus (ii) (A) the total assets as of such date, as determined in accordance with GAAP, of Non-Wholly Owned Subsidiaries which are not Credit Parties, less (B) that portion thereof attributable to the owners thereof other than the Borrowers or any Wholly Owned Subsidiary, plus (iii) the aggregate outstanding principal balance of all loans made by a Consolidated Party to a Person which is not a Credit Party to the extent such loans are not included in (i) or (ii) of this subsection (b), plus (iv) the aggregate outstanding principal balance of all loans made by a third party to a Person which is not a Credit Party if such loans are guaranteed by a Consolidated Party to the extent such guaranteed loans are not included in (i), (ii) or (iii) of this subsection (b).

“ Adjusted NOI ” means, with respect to any applicable time period for any Property, (a) Net Operating Income for such period with respect to such Property less (b) the sum of (i) the Capital Expenditure Reserve amount for such Property during such period, plus (ii) a management fee in the amount of three percent (3%) of total revenues derived from the Property during such period; provided, that such amount shall be exclusive of any adjustment for such period attributable to the Straight-Lining of Rents; provided, further, that, in each case, (i) all amounts included in the above calculations (and not otherwise adjusted for interests in Minority Interest Entities) shall be adjusted to account for any amounts attributable to any interests held by any Consolidated Party in any Minority Interest Entity and (ii) all amounts included in the above calculations (and not otherwise adjusted to account for Outside Interests) shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to Outside Interests.

“ Administrative Agent ” shall have the meaning assigned to such term in the heading hereof, together with any successors or assigns.

“ Affiliate ” means, with respect to any Person, any other Person (i) directly or indirectly controlling or controlled by or under direct or indirect common control with such Person or (ii) directly or indirectly owning or holding five percent (5%) or more of the equity interest in such Person. For purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“ Agent-Related Persons ” means the Administrative Agent, together with its Affiliates (including, in the case of Bank of America in its capacity as the Administrative Agent, Banc of America Securities LLC), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

“ Annualized Adjusted NOI ” means (a) for each Property owned for 12 months or more, Adjusted NOI for such Property for the immediately preceding 12 month period and (b) for each Property owned for a period of less than 12 months, Adjusted NOI for such Property calculated by annualizing year-to-date Adjusted NOI for such Property and adjusting (through appropriate pro-rating, removal or other correction) for all annual or one-time lump sum payments or expenses with respect to the Property or for any extraordinary income or expense items with respect to such Property.

“ Applicable Percentage ” means, for any day, subject to adjustment as provided in the penultimate paragraph of this definition, the rate per annum set forth below opposite the applicable Unsecured Long Term Debt Rating then in effect, it being understood that the Applicable Percentage for (i) Eurodollar Loans shall be the percentage set forth under column “Applicable Percentage for Eurodollar Loans”, (ii) Base Rate Loans shall

be the percentage set forth under the column “Applicable Percentage for Base Rate Loans”, (iii) Facility Fees shall be the percentage set forth under the column “Applicable Percentage for Facility Fees” and (iv) Letter of Credit Fee shall be the percentage set forth under the column “Applicable Percentage for Letter of Credit Fee.”

Pricing Level	S&P Rating	Moody's Rating	Third Debt Rating	Applicable Percentage for Eurodollar Loans	Applicable Percentage for Base Rate Loans	Applicable Percentage for Facility Fees	Applicable Percentage for Letter of Credit Fee
I	A- or higher	A3 or higher	A- /A3 equivalent or higher	0.70%	0.00%	0.15%	0.70%
II	BBB+	Baa1	BBB+/Baa1 equivalent	0.80%	0.00%	0.15%	0.80%
III	BBB	Baa2	BBB/Baa2 equivalent	0.85%	0.00%	0.20%	0.85%
IV	BBB-	Baa3	BBB-/Baa3 equivalent	1.05%	0.15%	0.25%	1.05%
V	BB+ or Lower	Ba1 or Lower	BB+/Ba1 equivalent or lower	see Pricing Level V Sub-Chart below	see Pricing Level V Sub-Chart below	0.30%	See pricing Level V Sub-Chart below

Pricing Level V Sub-Chart (for determination of the Applicable Percentage(s) for Eurodollar Loans and Base Rate Loans when the applicable Unsecured Long Term Debt Rating dictates use of Pricing Level V in the chart set forth above):

Pricing Level	TL/TA Ratio (as calculated pursuant to the most-recently delivered officer's certificate pursuant to Section 7.1(c) hereof)	Applicable Percentage for Eurodollar Loans and Letter of Credit Fees	Applicable Percentage for Base Rate Loans
V-A	> 0.50	1.65%	0.30%
V-B	> 0.45 to ≤ 0.50	1.55%	0.30%
V-C	> 0.35 to ≤ 0.45	1.45%	0.25%
V-D	≤ 0.35	1.25%	0.20%

If (i) the Interest Coverage Ratio, as calculated pursuant to each of the two most-recently delivered quarterly officer's certificates delivered pursuant to Section 7.1(c) hereof, is greater than 2.25 to 1.00, (ii) the Fixed Charge Coverage Ratio, as calculated pursuant to each of the two most-recently delivered quarterly officer's certificates delivered pursuant to Section 7.1(c) hereof, is greater than 1.70 to 1.00, and (iii) the Borrowers are subject to Pricing Level IV or V (including the Pricing Level V Sub-Chart) as set forth above, the percentages set forth in those Pricing Level portions of the above Chart and Sub-Chart and in each column other than the column titled “Applicable Percentage For Facility Fees” shall be reduced by five hundredths of one percent (0.05%).

The Applicable Percentage shall be adjusted effective on the next Business Day following any change in the Unsecured Long Term Debt Rating; provided, however, that to the extent the Unsecured Long Term Debt Rating causes the Applicable Percentage to be calculated pursuant to the Pricing Level V Sub-Chart, the Applicable Percentage shall be set using the information provided in the most-recently delivered officer's certificate pursuant to Section 7.1(c) hereof and adjusted from time to time thereafter in accordance with the Pricing Level V Sub-Chart using the applicable TL/TA Ratio. The Principal Borrower shall notify the Administrative Agent in writing promptly after becoming aware of any change in the Unsecured Long Term Debt Rating.

Notwithstanding anything to the contrary contained in the foregoing, to the extent the Principal Borrower fails to deliver any officer's certificate as of the date required pursuant to Section 7.1(c) hereof and has a credit rating of BB+/Ba1, an equivalent rating or lower, the Applicable Percentage as of the date immediately following such required date of delivery and until the delivery of such officer's certificate shall be the rate specified in line V-A of the Pricing Level V Sub-Chart.

“Arranger” means Banc of America Securities LLC, in its capacity as sole lead arranger and sole book manager.

“Asset Disposition” means the disposition of any assets (including without limitation the Capital Stock of a Subsidiary) of any Consolidated Party whether by sale, lease (but excluding the lease of assets in the ordinary course of business), transfer or otherwise to a Person other than a Credit Party.

“Attorney Costs” means and includes all reasonable fees, costs, expenses and disbursements of any law firm or other external counsel and, without duplication, the allocated reasonable cost of internal legal services and all reasonable expenses and disbursements of internal counsel.

“Bank of America” means Bank of America, N.A. and its successors.

“Bankruptcy Code” means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

“Bankruptcy Event” means, with respect to any Person, the occurrence of any of the following with respect to such Person: (i) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its property or ordering the winding up or liquidation of its affairs; or (ii) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its property or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of sixty (60) consecutive days; or (iii) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its property or make any general assignment for the benefit of creditors; or (iv) such Person shall admit in writing its inability to pay its debts generally as they become due.

“Base Rate” means, for any day, the rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus one-half of one percent (.5%) and (b) the Prime Rate for such day. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Prime Rate or Federal Funds Rate.

“Base Rate Loan” means any Loan bearing interest at a rate determined by reference to the Base Rate.

“Borrowers” means the Persons identified as such in the heading hereof, together with any permitted successors and assigns.

“Budgeted Project Costs” means, with respect to Properties Under Development, the budgeted cost of construction and final completion of such Properties Under Development; provided that the Budgeted Project Costs shall include projected operating deficits through completion and the projected date of occupancy of eighty-five percent (85%) of the gross leasable space; provided further that, with respect to Properties Under Development by Minority Interest Entities, the Budgeted Project Costs shall be the applicable Consolidated

Party's share of the budgeted costs of construction and final completion (based on the greater of (x) the Minority Interest of such Consolidated Party or (y) such Consolidated Party's obligation to provide funds to the Minority Interest Entity, which could include, for example, completion guaranties).

"Build To Suit Properties" means those Properties Under Development which have been 100% leased to tenants and have projected net operating income (based on projections approved by the Administrative Agent in its discretion) during its first year after final completion in an amount which results in no less than a 9.75% annual rate of return on all costs of construction of such Property Under Development, including, without limitation, financing costs and operating deficits.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized or required by law to close, except that, when used in connection with a Eurodollar Loan, such day shall also be a day on which dealings between banks are carried on in U.S. dollar deposits in London, England.

"Capital Expenditures" means all expenditures required for the leasing of space within Properties owned and previously leased by the Consolidated Parties, including upfit expenses and leasing commissions, together with expenses for renovation or improvement of existing properties that are classified as capital expenditures under GAAP. Leasing and tenant improvements expenditures with respect to space not previously leased shall not be included in any calculation of Capital Expenditures, but must be reported to the Administrative Agent on a quarterly basis as set forth in Section 7.1.

"Capital Expenditure Reserve" means, with respect to (a) any office, industrial or retail Property, a normalized annual reserve for replacement reserves, capital expenditures, tenant improvements, and leasing commissions in the amount of \$1.00 per year per square foot of net leaseable area contained in such Property, and (b) any multi-family Property, a normalized annual reserve for replacement reserves, capital expenditures, tenant improvements, and leasing commissions in the amount of \$250 per year per unit; in each case, less an amount equal to the aggregate percentage ownership interests held by any entities that are not affiliated with any of the Consolidated Parties multiplied by the total reserve required in (a) or (b) above for the subject Property. When the Capital Expenditure Reserve is used in computing an amount with respect to a period which is shorter than a year, said amount shall be appropriately pro rated.

"Capital Lease" means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Capital Stock" means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Capitalization Rate" means nine percent (9.00%) per annum.

"Cash Available for Distribution" means, for any given calculation date, all Funds from Operations (as defined as of the Closing Date by the Board of Governors of the National Association of Real Estate Investment Trusts) for the period commencing as of (and including) April 1, 2003 and ending on the last day of the fiscal quarter most recently preceding such calculation date less (a) Capital Expenditures over such period and (b) Scheduled Funded Debt Payments over such period.

"Cash Equivalents" means (a) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition, (b) U.S. dollar denominated time deposits and certificates of deposit of (i) any Lender, (ii) any domestic commercial bank of recognized standing having capital and surplus in excess of \$500,000,000

or (iii) any bank whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an "Approved Bank"), in each case with maturities of not more than 270 days from the date of acquisition, (c) commercial paper and variable or fixed rate notes issued by any Approved Bank (or by the parent company thereof) or any variable rate notes issued by, or guaranteed by, any domestic corporation rated A-1 (or the equivalent thereof) or better by S&P or P-1 (or the equivalent thereof) or better by Moody's and maturing within six months of the date of acquisition, (d) repurchase agreements with a bank or trust company (including any of the Lenders) or recognized securities dealer having capital and surplus in excess of \$500,000,000 for direct obligations issued by or fully guaranteed by the United States of America in which any Credit Party shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a fair market value of at least 100% of the amount of the repurchase obligations and (e) Investments, classified in accordance with GAAP as current assets, in money market investment programs registered under the Investment Company Act of 1940, as amended, which are administered by reputable financial institutions having capital of at least \$500,000,000 and the portfolios of which are limited to Investments of the character described in the foregoing subdivisions (a) through (d).

"Change of Control" means the occurrence of any of the following events: (i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership, directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, control over, Voting Stock of Highwoods Properties (or other securities convertible into such Voting Stock) representing 35% or more of the combined voting power of all Voting Stock of Highwoods Properties, or (ii) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 24 month period were directors of Highwoods Properties (together with any new director whose election by Highwoods Properties' Board of Directors or whose nomination for election by Highwoods Properties' shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of Highwoods Properties then in office, or (iii) Highwoods Properties or any Wholly Owned Subsidiary which is a Credit Party shall fail to be the sole general partner of Highwoods Realty or own a majority of the Capital Stock of Highwoods Services or Highwoods Finance. As used herein, "beneficial ownership" shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

"CIP Properties" means, as of any given calculation date, a collective reference to all Properties Under Development the total contemplated space in which are less than 75% pre-leased at the time of such calculation.

"Closing Date" means the date hereof.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto, as interpreted by the rules and regulations issued thereunder, in each case as in effect from time to time. References to sections of the Code shall be construed also to refer to any successor sections.

"Commitment" means (i) with respect to each Lender, the Revolving Commitment of such Lender, (ii) with respect to the Swingline Lender, the Swingline Commitment, and (iii) with respect to the Issuing Lender, the LOC Commitment.

"Commitment Percentage" means, for any Lender, the percentage identified as its Commitment Percentage on Schedule 2.1(a), as such percentage may be modified in connection with any assignment made in accordance with the provisions of Section 11.3.

"Consolidated Parties" means a collective reference to Highwoods Properties and its consolidated Subsidiaries, including Highwoods Realty, and "Consolidated Party" means any one of them.

"Credit Documents" means a collective reference to this Credit Agreement, the Notes, the LOC Documents, each Joinder Agreement and all other related agreements and documents issued or delivered

hereunder or thereunder or pursuant hereto or thereto (in each case, as the same may be amended, modified, restated, supplemented, extended, renewed or replaced from time to time) and “Credit Document” means any one of them.

“Credit Parties” means a collective reference to the Borrowers and the Guarantors, and “Credit Party” means any one of them.

“Credit Party Obligations” means, without duplication, (a) all of the obligations of the Credit Parties to the Lenders (including the Issuing Lender) and the Administrative Agent, whenever arising, under this Credit Agreement, the Notes or any of the other Credit Documents (including, but not limited to, any interest accruing after the occurrence of a Bankruptcy Event with respect to any Credit Party, regardless of whether such interest is an allowed claim under the Bankruptcy Code) and (b) all liabilities and obligations, whenever arising, owing from any of the Borrowers to any Lender, or any Affiliate of a Lender, arising under any Hedging Agreement related to the Credit Documents or the obligations created thereby. It is specifically understood and agreed that (i) the Credit Party Obligations of each Guarantor include any and all obligations that such Guarantor may have as a Borrower or Guarantor hereunder or under any of the other Credit Documents and (ii) the Credit Party Obligations shall include the LOC Obligations.

“Default” means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

“Derivative Exposure” means the maximum liability (including costs, fees and expenses), based upon a liquidation or termination as of the date of the applicable covenant compliance test, of any Person under any interest rate swap, collar, cap or other interest rate protection agreements, treasury locks, equity forward contracts, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements.

“Designated Amount” means, with respect to any Facility Fee paid by the Borrowers hereunder with respect to a given calendar quarter, the amount, if any, equal to (a) the product of (i) the Facility Fee Modifier (if any) used in calculating such Facility Fee, multiplied by (ii) the maximum amount of the Revolving Committed Amount during the applicable calendar quarter, less (b) the product of (i) the Facility Fee Modifier (if any) used in calculating such Facility Fee, multiplied by (ii) the average weighted outstanding principal amount of the Loans during the applicable calendar quarter (or portion thereof).

“Documentation Agent” shall have the meaning set forth in the first paragraph of this Credit Agreement, together with any successors or assigns.

“Dollars” and “\$” means dollars in lawful currency of the United States of America.

“Domestic Subsidiary” means, with respect to any Person, any Subsidiary of such Person which is incorporated or organized under the laws of any State of the United States or the District of Columbia.

“EBITDA” means, for any period, the sum of (i) aggregate Net Income during such period, plus (ii) an amount which, in the determination of Net Income for such period, has been deducted for (A) Interest Expense, (B) total federal, state, local and foreign income, value added and similar taxes and (C) depreciation and amortization expense, with each of (A), (B) and (C) above determined in accordance with GAAP; provided, that, (i) each of the above calculations shall include, without duplication, any amounts attributable to any interests held by any Consolidated Party in any Minority Interest Entity and (ii) all amounts included in the above calculations (and not otherwise adjusted to account for Outside Interests) shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to Outside Interests.

“Eligible Assignee” means (i) a Lender; (ii) an Affiliate of a Lender; and (iii) any other Person approved by the Administrative Agent (such approval not to be unreasonably withheld or delayed) and, unless an Event of Default has occurred and is continuing at the time any assignment is effected in accordance with Section 11.3, the Principal Borrower (such approval not to be unreasonably withheld or

delayed by the Principal Borrower and such approval to be deemed given by the Principal Borrower if no objection is received by the assigning Lender and the Administrative Agent from the Principal Borrower within two Business Days after notice of such proposed assignment has been provided by the assigning Lender to the Principal Borrower); provided, however, that neither the Principal Borrower nor an Affiliate of the Principal Borrower shall qualify as an Eligible Assignee.

“Environmental Laws” means any and all lawful and applicable Federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

“Equity Issuance” means any issuance by Highwoods Properties or Highwoods Realty to any Person which is not a Credit Party of (a) shares of its Capital Stock, (b) any shares of its Capital Stock pursuant to the exercise of options or warrants or (c) any shares of its Capital Stock pursuant to the conversion of any debt securities to equity.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with any Credit Party within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by any Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Loan” means any Loan that bears interest at a rate based upon the Eurodollar Rate.

“Eurodollar Rate” means for any Interest Period with respect to any Eurodollar Rate Loan:

(a) the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page, as determined by the Administrative Agent) as the average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(b) if the rate referenced in the preceding clause (a) does not appear on such page or service or such page or service shall not be available, the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such

Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(c) if the rates referenced in the preceding clauses (a) and (b) are not available, the rate per annum determined by the Administrative Agent as the rate of interest at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 4:00 p.m. (London time) two Business Days prior to the first day of such Interest Period.

“Event of Default” means such term as defined in Section 9.1.

“Existing Letters of Credit” means those Letters of Credit outstanding on the Closing Date and identified on Schedule 2.3(a) attached hereto.

“Facility Fee” shall have the meaning assigned to such term in Section 3.5(a).

“Facility Fee Modifier” means, for any date of calculation, a per annum percentage equal to the sum of (a) to the extent the TL/TA Ratio, as most-recently properly calculated pursuant to any officer's certificate delivered pursuant to Section 7.1(c) hereof, exceeds 0.55 to 1.00, three tenths of one percent (0.30%), plus (b) to the extent the Interest Coverage Ratio, as most-recently properly calculated pursuant to any officer's certificate delivered pursuant to Section 7.1(c) hereof, is less than 2.15 to 1.00, one quarter of one percent (0.25%), plus (c) to the extent the Fixed Charge Coverage Ratio, as most-recently properly calculated pursuant to any officer's certificate delivered pursuant to Section 7.1(c) hereof, is less than 1.60 to 1.00, one quarter of one percent (0.25%); provided, however, that to the extent each of clauses (b) and (c) of this definition would otherwise each require a one quarter of one percent (0.25%) increase in the Facility Fee Modifier (for a total of one half of one percent (0.50%)), the total increase in the Facility Fee Modifier as a result of the application of clauses (b) and (c) shall be three tenths of one percent (0.30%).

“Fee Letter” means the fee letter agreement, dated March 24, 2003 among the Borrower, the Administrative Agent and the Arranger.

“Fees” means all fees payable pursuant to Section 3.5 (including, without limitation, fees payable pursuant to the terms of the Fee Letter).

“Federal Funds Rate” means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Administrative Agent (in its individual capacity) on such day on such transactions as determined by the Administrative Agent.

“Fixed Charge Coverage Ratio” means, as of the end of each fiscal quarter of the Consolidated Parties for the twelve month period ending on such date, the ratio of (a) Adjusted EBITDA for the applicable period to (b) the sum of (i) Interest Expense for the applicable period plus (ii) preferred dividends permitted hereunder for the applicable period plus (iii) Scheduled Funded Debt Payments for the applicable period.

“Foreign Subsidiary” means, with respect to any Person, any Subsidiary of such Person which is not a Domestic Subsidiary of such Person.

“Funded Indebtedness” means, with respect to any Person, without duplication, (a) all Indebtedness of such Person other than Indebtedness of the types referred to in clause (e), (g) and (i) of the definition of

"Indebtedness" set forth in this Section 1.1, (b) all Indebtedness of another Person of the type referred to in clause (a) above secured by (or for which the holder of such Funded Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (c) all Guaranty Obligations of such Person with respect to Indebtedness of the type referred to in clause (a) above of another Person and (d) Indebtedness of the type referred to in clause (a) above of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer.

"GAAP" means generally accepted accounting principles in the United States applied on a consistent basis and subject to the terms of Section 1.3.

"Governmental Authority" means any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantors" means a collective reference to each of the Persons identified as a "Guarantor" on the signature pages hereto and each Additional Credit Party which may hereafter execute a Joinder Agreement, together with their successors and permitted assigns, and "Guarantor" means any one of them.

"Guaranty Obligations" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Indebtedness or any property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (iii) to lease or purchase property, securities or services primarily for the purpose of assuring the holder of such Indebtedness, (iv) to guaranty to any Person rental income levels (or shortfalls) or re-tenanting costs (including tenant improvements, moving expenses, lease commissions and any other costs associated with procuring new tenants); provided, that such obligations shall be determined to be equal to the maximum potential amount of the payments due from the Person guaranteeing the applicable rental income levels over the term of the applicable lease), (v) to guaranty the completion of any Properties Under Development, whether or not specifically including costs associated therewith or (vi) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the obligation or Indebtedness in respect of which such Guaranty Obligation is made. It is specifically understood and agreed that the Guaranty Obligations of each Guarantor include any and all obligations that such Guarantor may have as a Borrower hereunder or under any of the other Credit Documents.

"Hedging Agreement" means any interest rate protection agreement, rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index option, bond option, interest rate option, foreign exchange transaction, short sale transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross currency rate swap transaction, currency option, any other similar transaction (including any option with respect to any of these transactions) and any combination of the foregoing which directly hedges or offsets interest rate risk or other market risk with respect to any of the obligations of any Consolidated Party, in each case, entered into by and between a Consolidated Party and any Lender or any Affiliate of a Lender.

"Highwoods Preserve Properties" means those Properties located at 8125 Highwoods Palm Way (Building I), 18209-17 Bermuda Green Drive (Buildings II & IV), 18301 Bermuda Green Drive (Building III), 18210 Bermuda Green Drive (Building V) in Tampa, Florida.

"Highwoods Realty Limited Partnership Agreement" means that certain limited partnership agreement of Highwoods Realty dated as of June 14, 1994, as amended or modified from time to time.

“Indebtedness” of any Person, without duplication, means, in each case whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person, (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all indebtedness of others secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guaranty Obligations of such Person, (h) the principal portion of all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under Capital Leases, (i) all obligations of such Person in respect of interest rate swap, collar, cap or other interest rate protection agreements, treasury locks, equity forward contracts, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements (including, but not limited to, the Hedging Agreements), (j) all obligations of such Person to repurchase any securities which repurchase obligation is related to the issuance thereof, (k) the maximum amount of all standby letters of credit issued or bankers’ acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (l) all preferred Capital Stock issued by such Person and required by the terms thereof to be redeemed, or for which mandatory sinking fund payments are due, by a fixed date, (m) all other obligations of such Person under any arrangement or financing structure classified as debt (for tax purposes) by any nationally recognized rating agency, (n) the principal portion of all obligations of such Person for any Off Balance Sheet Liabilities and (o) the indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer.

“Information” shall have the meaning given to such term in Section 11.14 hereof.

“Interest Coverage Ratio” means, with respect to the Consolidated Parties on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter of the Consolidated Parties, the ratio of (a) Adjusted EBITDA for such period to (b) Interest Expense for such period.

“Interest Expense” means, for any period, the sum of (a) interest expense (including, without limitation, the interest component under Capital Leases and with respect to Off Balance Sheet Liabilities) of the Consolidated Parties on a consolidated basis for such period, as determined in accordance with GAAP, plus (b) an amount equal to the aggregate of interest expense (including the interest component under Capital Leases and with respect to any Off Balance Sheet Liabilities), as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest in each such entity; provided, that the amount of any Facility Fees paid by the Borrowers hereunder during any such period constituting “Interest Expense” for purposes of this definition shall be equal to (i) the total amount of such Facility Fees paid during such period, less (ii) the Designated Amount with respect to such Facility Fees.

“Interest Payment Date” means (a) as to Base Rate Loans, the first day of each calendar month (as to interest through the end of the prior calendar month) and the Maturity Date and (b) as to Eurodollar Loans, the last day of each applicable Interest Period and the Maturity Date, and in addition where the applicable Interest Period for a Eurodollar Loan is greater than three months, then also the date three months from the beginning of the Interest Period and each three months thereafter.

“Interest Period” means (i) as to any Eurodollar Loan, a period of one, two, three, six, nine or twelve months’ duration (provided that a period of twelve months shall be deemed, as used in connection with the term “Interest Period”, to be equal to 364 days and shall only be available to the Borrowers to the extent available to each Lender), commencing in each case, on the date of the borrowing (including continuations and conversions thereof) and (ii) as to any Swingline Loan, a period commencing in each case on the date of the borrowing and ending on the date agreed to by one or more of the Borrowers and the Swingline Lender in accordance with the

provisions of Section 2.4(b)(i) (such ending date in any event to be not more than three (3) Business Days from the date of borrowing); provided, however, (a) if any Interest Period would end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day (except that in the case of Eurodollar Loans where the next succeeding Business Day falls in the next succeeding calendar month, then on the next preceding Business Day), (b) no Interest Period shall extend beyond the Maturity Date and (c) in the case of Eurodollar Loans, where an Interest Period begins on a day for which there is no numerically corresponding day in the calendar month in which the Interest Period is to end, such Interest Period shall end on the last Business Day of such calendar month.

“Investment” means any investment made in cash or by delivery of property by any Consolidated Party (a) in any Person, whether by (i) acquisition of assets, shares of Capital Stock, Investment Security, bonds, notes, debentures, partnership, joint ventures or other ownership interests or other securities of any Person or (ii) any deposit with, or advance, loan or other extension of credit to, any Person (other than deposits made in connection with the purchase of equipment or other assets in the ordinary course of business) or (iii) any other capital contribution to or investment in such Person, including, without limitation, any Guaranty Obligations (including any support for a letter of credit issued on behalf of such Person) incurred for the benefit of such Person, or (b) in any property.

“Investment Security” means “security” as defined in Section 2(1) of the Securities Act of 1933, as amended.

“Issuing Lender” means Bank of America.

“Issuing Lender Fees” shall have the meaning assigned to such term in Section 3.5(b)(ii).

“Joinder Agreement” means a Joinder Agreement substantially in the form of Exhibit 7.12 hereto, executed and delivered by an Additional Credit Party in accordance with the provisions of Section 7.12.

“Lender” means any of the Persons identified as a “Lender” on the signature pages hereto, and any Person which may become a Lender by way of assignment in accordance with the terms hereof, together with their successors and permitted assigns.

“Letter of Credit” means the Existing Letters of Credit and any letter of credit issued by the Issuing Lender for the account of any Credit Party in accordance with the terms of Section 2.3.

“Letter of Credit Fee” shall have the meaning assigned to such term in Section 3.5(b)(i).

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

“Loan” or “Loans” means the Revolving Loans (or a portion of any Revolving Loan bearing interest at the Adjusted Base Rate or the Adjusted Eurodollar Rate and referred to as a Base Rate Loan or a Eurodollar Loan) and/or the Swingline Loans, individually or collectively, as appropriate.

“LOC Commitment” means the commitment of the Issuing Lender to issue Letters of Credit in an aggregate face amount at any time outstanding (together with the amounts of any unreimbursed drawings thereon) of up to the LOC Committed Amount.

“LOC Committed Amount” shall have the meaning assigned to such term in Section 2.3.

“LOC Documents” means, with respect to any Letter of Credit, such Letter of Credit, any amendments thereto, any documents delivered in connection therewith, any application therefor, and any agreements, instruments, guarantees or other documents (whether general in application or applicable only to

such Letter of Credit) governing or providing for (i) the rights and obligations of the parties concerned or at risk or (ii) any collateral security for such obligations.

“LOC Obligations” means, at any time, the sum of (i) the maximum amount which is, or at any time thereafter may become, available to be drawn under Letters of Credit then outstanding, assuming compliance with all requirements for drawings referred to in such Letters of Credit plus (ii) the aggregate amount of all drawings under Letters of Credit honored by the Issuing Lender but not theretofore reimbursed by the Borrowers.

“Material Adverse Effect” means a material adverse effect on (i) the condition (financial or otherwise), operations, business, assets, liabilities or prospects of the Consolidated Parties, taken as a whole, (ii) the ability of any Credit Party to perform any material obligation under the Credit Documents to which it is a party or (iii) the material rights and remedies of the Lenders under the Credit Documents.

“Materials of Environmental Concern” means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Laws, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

“Maturity Date” means the date which is three (3) years from the Closing Date.

“Minority Interest” means the percentage of the Capital Stock or other equity interest owned by a Consolidated Party in a Minority Interest Entity accounted for pursuant to the equity method of accounting under GAAP.

“Minority Interest Entity” means any corporation, partnership, association, joint venture or other entity in each case which is not a Consolidated Party and in which a Consolidated Party owns, directly or indirectly, Capital Stock or any other equity interest.

“Moody's” means Moody's Investors Service, Inc., or any successor or assignee of the business of such company in the business of rating securities.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Negative Pledge” means a provision of any agreement (other than this Credit Agreement or any other Credit Document) that prohibits the creation of any Lien on any assets of a Person; provided, however, that an agreement that establishes a maximum ratio of unsecured debt to unencumbered assets, or of secured debt to total assets, or that otherwise conditions a Person's ability to encumber its assets upon the maintenance of one or more specified ratios that limit such Person's ability to encumber its assets but that do not generally prohibit the encumbrance of its assets, or the encumbrance of specific assets, shall not constitute a “Negative Pledge” for purposes of this Credit Agreement.

“Net Asset Sales Proceeds” means, with respect to any Asset Disposition (other than an Asset Disposition qualifying as a like kind exchange under Section 1031 of the Code), the aggregate proceeds received by any Consolidated Party in cash or Cash Equivalents (including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents and including any proceeds which are used by the applicable Consolidated Party to retire in whole or in part any Indebtedness encumbering the property sold) plus the aggregate principal amount of any Indebtedness encumbering the property sold assumed by the purchaser of such property, net of (i) direct costs (including, without limitation, legal, accounting and investment banking fees, sales commissions, transfer and recording charges and taxes and other closing costs customarily allocated to sellers), and (ii) taxes paid or payable by the Consolidated Parties as a result thereof after taking into account any reduction in consolidated tax liability due to available tax credits, deductions or losses, any tax sharing arrangements and any distributions to shareholders or partners otherwise allowed pursuant to the terms hereof; it being understood that “Net Asset Sales Proceeds” shall include, without

limitation and without duplication, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received by any such Consolidated Party in any Asset Disposition.

“Net Cash Proceeds” means the aggregate cash proceeds received by the Consolidated Parties in respect of any Equity Issuance, net of (a) direct costs (including, without limitation, legal, accounting and investment banking fees and sales commissions) and (b) taxes paid or payable as a result thereof; it being understood that “Net Cash Proceeds” shall include, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received by the Consolidated Parties in any Equity Issuance.

“Net Income” means, for any period, the sum of (i) net income (excluding extraordinary gains and losses and related tax effects thereof) after taxes for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (ii) without duplication, an amount equal to that portion attributable to Highwoods Realty of the line item “minority interests” relating to operating partnership units for such period, as shown on the consolidated income statements of the Consolidated Parties, plus (iii) without duplication, an amount equal to the aggregate of net income (excluding extraordinary gains and losses and related tax effects thereof) after taxes for such period, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity; provided, however, that notwithstanding anything contained herein to the contrary, (A) the aggregate amount of gains resulting from Asset Dispositions of the Consolidated Parties and included in the calculation of “Net Income” shall not exceed \$5,000,000 for any fiscal quarter (or any portion thereof) included in the applicable calculation period (on a gross basis, without netting for losses associated with other Asset Dispositions during such fiscal quarter or any other time during the applicable calculation period); and (B) the aggregate amount of losses resulting from Asset Dispositions of the Consolidated Parties and included in the calculation of “Net Income” shall not exceed \$5,000,000 for any fiscal quarter (or any portion thereof) included in the applicable calculation period (on a gross basis, without netting for gains associated with other Asset Dispositions during such fiscal quarter or any other time during the applicable calculation period).

“Net Operating Income” means, for any given period and with respect to any given Property or Properties, the amount equal to: (a) the sum of (i) gross revenues attributable to such Property or Properties for such period, less (ii) to the extent otherwise included in gross revenues, interest income; less (b) an amount equal to (i) operating expenses allocable to such Property or Properties (excluding any management fees paid with respect to such Property or Properties), less (ii) to the extent included in the calculation of operating expenses, (A) income taxes, (B) depreciation and amortization, and (C) Interest Expense; in each case, provided, that, (i) all amounts included in the above calculations shall be adjusted to account for any amounts attributable to any interests held by any Consolidated Party in any Minority Interest Entity and (ii) all amounts included in the above calculations and not otherwise adjusted to account for Outside Interests shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to Outside Interests.

“Non-Guarantor Subsidiaries” means a collective reference to those Persons from time to time listed on Schedule 1.1(b) attached hereto; and “Non-Guarantor Subsidiary” means any one of such Persons; provided, that such schedule shall be updated in accordance with Section 6.13 hereof.

“Non-Wholly-Owned Subsidiary” means a Subsidiary of Highwoods Properties which is not a Wholly Owned Subsidiary.

“Note” or “Notes” means the Revolving Notes and/or the Swingline Note, individually or collectively, as appropriate.

“Notes Receivable” means, all promissory notes or other similar obligations to pay money, whether secured or unsecured, that are not over thirty (30) days past due in which any Borrower, any Consolidated Party or any unconsolidated affiliate has an interest.

“Notice of Borrowing” means a written notice of borrowing as required by Section 2.1(b)(i) or Section 2.4(b)(i) signed by a Responsible Officer and substantially in the form of Exhibit 2.1(b)(i) or Exhibit 2.4(b)(i), as applicable.

“Notice of Extension/Conversion” means the written notice of extension or conversion in substantially the form of Exhibit 3.2, as required by Section 3.2 signed by a Responsible Officer.

“Off Balance Sheet Liabilities” means, with respect to any Person, any (a) repurchase obligation or liability, contingent or otherwise, of such Person with respect to any accounts or notes receivable sold, transferred or otherwise disposed of by such Person, (b) repurchase obligation or liability, contingent or otherwise, of such Person with respect to property or assets leased by such Person as lessee and (c) obligations, contingent or otherwise, of such Person under any Synthetic Lease, tax retention operating lease, off balance sheet loan or similar off balance sheet financing, in each case, if the transaction giving rise to such obligation (i) is considered Indebtedness for borrowed money for tax purposes but is classified as an Operating Lease, (ii) does not (and is not required pursuant to GAAP to) appear as a liability on the balance sheet of such Person, (iii) is a transaction pursuant to which a tenant does not take possession of the leased property, or (iv) is a lease treated as a financing for GAAP or tax purposes, but excluding from the foregoing provisions of this definition any obligations or liabilities of any such Person as lessee under any Operating Lease so long as the terms of such Operating Lease do not require any payment by or on behalf of such Person at the scheduled termination date of such Operating Lease, pursuant to a required purchase by or on behalf of such Person of the property or assets subject to such Operating Lease, or under any arrangements pursuant to which such Person guarantees or otherwise assures any other Person of the value of the property or assets subject to such Operating Lease.

“Operating Lease” means, as applied to any Person, any lease (including, without limitation, leases which may be terminated by the lessee at any time) of any property (whether real, personal or mixed) which is not a Capital Lease other than any such lease in which that Person is the lessor.

“Other Taxes” means such term as is defined in Section 3.11.

“Outside Interests” means, at any time, interests in the Properties (and, as applicable, the cost thereof, Notes Receivable with respect thereto, Cash and Cash Equivalents held in connection therewith, the income, revenues, interest expense, taxes, depreciation and amortization attributable thereto) owned by entities that are not Consolidated Parties.

“Outstanding Amount” means (i) with respect to Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Revolving Loans, as the case may be, occurring on such date; and (ii) with respect to any LOC Obligations on any date, the amount of such LOC Obligations on such date after giving effect to any extension of any Letters of Credit occurring on such date and any other changes in the aggregate amount of the LOC Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

“Participation Interest” means, a purchase by a Lender of a participation in any Letters of Credit or LOC Obligations as provided in Section 2.3(c), in Swingline Loans as provided in Section 2.4(b)(iii) or in any Loans as provided in Section 3.14.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by any Credit Party or any ERISA Affiliate or to which any Credit Party or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Permitted Investments” means Investments which are (i) cash and Cash Equivalents; (ii) Investments existing on the Closing Date and set forth on Schedule 1.1(a); (iii) Investments by any Credit Party in any Wholly Owned Subsidiary that is a Credit Party; (iv) Investments in any Wholly Owned Subsidiary which is to become a Credit Party pursuant to the terms of Section 7.12 so long as such Wholly Owned Subsidiary becomes a Credit Party in accordance with the requirements of Section 7.12; (v) Investments by any Credit Party in any Preferred Stock Subsidiary or any wholly owned Subsidiary of a Preferred Stock Subsidiary; (vi) Investments by any Credit Party in any Property owned by such Credit Party and in any personal property incidental to such Property; (vii) Investments in vehicles, furniture, fixtures and other personal property including supplies and other similar inventory purchased by any Credit Party and used in such Consolidated Party’s ordinary course of business; (viii) Investments permitted by Sections 7.11(j), (l), (m) and (n); and (ix) Investments in Subsidiaries which are not Credit Parties as a result of the application of the last sentence of Section 7.12 hereof.

“Person” means any individual, partnership, joint venture, firm, corporation, limited liability company, association, trust or other enterprise (whether or not incorporated) or any Governmental Authority.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by any Credit Party or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“Preferred Stock Subsidiary” any entity (i) in which a Credit Party owns at least 90% of the Capital Stock but less than 10% of the Voting Stock and (ii) with respect to which the Principal Borrower certifies in writing to the Administrative Agent that such entity was formed with such an ownership structure such that its income would not adversely affect the qualification of Highwoods Properties status as a REIT.

“Prime Rate” means the per annum rate of interest established from time to time by Bank of America as its prime rate, which rate may not be the lowest rate of interest charged by Bank of America to its customers.

“Principal Borrower” means Highwoods Properties.

“Pro Forma Compliance Certificate” means a certificate of an officer of the Principal Borrower delivered to the Administrative Agent in connection with an Asset Disposition and containing reasonably detailed calculations, upon giving effect to the applicable transaction on a pro forma basis, of the financial covenants set forth in Section 7.11.

“Pro Rata Share” means as to each Lender, with respect to such Lender’s Revolving Commitment at any time, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Revolving Commitment of such Lender at such time and the denominator of which is the amount of the Revolving Committed Amount at such time; provided that if the Commitment of each Lender to make Loans and the obligation of the Issuing Lender to issue Letters of Credit have been terminated pursuant to the terms of this Credit Agreement, then the Pro Rata Share of such Lender shall be determined based on the percentage of the Total Outstandings held by such Lender as of the date of calculation (after giving effect to any subsequent assignments made pursuant to the terms hereof).

“Properties” means all interests in real property (direct or indirect), together with all improvements thereon, owned by the Borrower, any Consolidated Party or any unconsolidated affiliates thereof and “Property” means any one of them.

“Properties Under Development” means Properties, the primary purpose of which is to be leased in the ordinary course of business and on which any Borrower, any Consolidated Party or any unconsolidated affiliate thereof has commenced construction of a building or other improvements; provided that any such Property will no longer be considered a Property Under Development when, (i) seventy-five percent (75%) of the gross leasable space to be contained therein upon completion in accordance with then existing plans and specifications with respect to such Property is occupied by tenants under fully executed leases, in which case such Property shall be considered a Transition Property or (ii) prior to substantial completion of the

construction work with respect to property, such construction work has ceased for a period of 30 days, in which case such Property shall be considered Speculative Land until such time as construction has resumed; provided, further that, notwithstanding the foregoing definition, Properties qualifying as Highwoods Preserve Properties shall not be considered "Properties Under Development" for purposes of this Agreement.

"Quarterly Stock Repurchase/Joinder Statement" means a certificate, prepared on a quarterly basis by the Principal Borrower, setting forth (a) the classes, number and value of any shares or other evidences of Capital Stock of the Principal Borrower purchased, redeemed, retired or otherwise acquired for value by the Principal Borrower during the immediately preceding fiscal quarter, and the total amount paid for such Capital Stock, (b) detailed calculations for (i) gross asset sales proceeds and Net Asset Sales Proceeds from (A) Asset Dispositions not involving Speculative Land and (B) Asset Dispositions of Speculative Land, in each case for the immediately preceding fiscal quarter, and (ii) the amounts available, based on the calculations done in connection with clause (i), for the purchase, redemption, retirement or acquisition of Capital Stock of the Principal Borrower for such quarter pursuant to Section 7.11(l) hereof, (iii) a list of assets sold during the preceding quarter to the extent that the proceeds from the sale of such assets are used in the calculations made in clause (ii) hereof, (iv) a projection of expected Asset Dispositions for the four fiscal quarters following the quarter referenced in clauses (i) through (iii) on a quarter by quarter basis, and (v) a list of all Subsidiaries acquired or created during the immediately preceding fiscal quarter, together with a schedule of the assets owned by each such Subsidiary.

"Register" shall have the meaning given such term in Section 11.3(c).

"Regulation O, T, U, or X" means Regulation O, T, U or X, respectively, of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"REIT" means a real estate investment trust as defined in Sections 856-860 of the Code.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment (including the abandonment or discarding of barrels, containers and other closed receptacles containing any Materials of Environmental Concern).

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

"Required Lenders" means, at any time, Lenders which are then in compliance with their obligations hereunder (as determined by the Administrative Agent) and holding in the aggregate at least sixty-six and two-thirds percent (66 2/3%) of (i) the Revolving Commitments (and Participation Interests therein) or (ii) if the Commitments have been terminated, the outstanding Loans and Participation Interests (including the Participation Interests of the Issuing Lender in any Letters of Credit).

"Requirement of Law" means, as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its material property is subject.

"Responsible Officer" means, (i) with respect to Highwoods Properties, Carman J. Liuzzo, Mack D. Pridgen, III, Ronald P. Gibson and Edward J. Fritsch, and any other person certified by one of the foregoing individuals or by corporate resolution of Highwoods Properties to the Administrative Agent as authorized to sign the forms and notices required herein of Highwoods Properties and (ii) with respect to the other Credit Parties, the general partner, president, chief operating officer, chief financial officer, secretary and each vice president thereof.

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding (including any payment of dividends by Highwoods Properties necessary to retain its status as a REIT or to meet the distribution requirements of Section 857 of the Code and any distributions by Highwoods Realty to

Highwoods Properties necessary to allow Highwoods Properties to maintain its status as a REIT or to meet the distribution requirements of Section 857 of the Code), (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding and (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Capital Stock of any Consolidated Party, now or hereafter outstanding; provided, however, that none of the following shall be deemed to be a Restricted Payment:

(A) any distribution by Highwoods Properties to the holders of its Capital Stock consisting of shares of Capital Stock or rights to acquire its Capital Stock;

(B) the redemption by Highwoods Realty of the Capital Stock of Highwoods Realty upon the demand of a holder thereof as required by the Highwoods Realty Limited Partnership Agreement;

(C) the purchase by Highwoods Realty or Highwoods Properties of the Capital Stock of either of them in connection with the net or "cashless exercise" of warrants or options;

(D) any distribution by a Consolidated Party to a Wholly Owned Subsidiary other than a Non-Guarantor Subsidiary;

(E) any distribution by a Subsidiary of Highwoods Realty to its parent or to Highwoods Realty;

(F) purchases, redemptions, retirements or other acquisitions of the Capital Stock of the Principal Borrower in accordance with Section 7.11(l);

(G) amounts distributed in compliance with Section 7.14.

"Revolving Commitment" means, with respect to each Lender, the commitment of such Lender in an aggregate principal amount at any time outstanding of up to such Lender's Commitment Percentage of the Revolving Committed Amount, (i) to make Revolving Loans in accordance with the provisions of Section 2.1(a), (ii) to purchase Participation Interests in Letters of Credit in accordance with the provisions of Section 2.3(c), and (iii) to purchase Participation Interests in the Swingline Loans in accordance with the provisions of Section 2.4(b)(iii).

"Revolving Committed Amount" shall have the meaning assigned to such term in Section 2.1(a).

"Revolving Loans" shall have the meaning assigned to such term in Section 2.1(a).

"Revolving Note" or "Revolving Notes" means the promissory notes of the Borrowers in favor of each of the Lenders evidencing the Revolving Loans provided pursuant to Section 2.1(e), individually or collectively, as appropriate, as such promissory notes may be amended, modified, restated, supplemented, extended, renewed or replaced from time to time.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc., or any successor or assignee of the business of such division in the business of rating securities.

"Scheduled Funded Debt Payments" means, for a given period, the sum of (a) all scheduled payments of principal on Funded Indebtedness for the Consolidated Parties on a consolidated basis for the applicable period ending on such date (including the principal component of payments due on Capital Leases during the applicable period), plus (b) an amount equal to the aggregate of all scheduled payments of principal on Funded Indebtedness for each Minority Interest Entity for the applicable period (including the principal component of payments due on Capital Leases during the applicable period) multiplied by the respective Minority Interest of each such entity, plus (c) the amount, if any, by which (i) the aggregate payments made by the Consolidated

Parties during such period as a result of any obligations meeting the criteria set forth in clause (iv) of the definition of “Guaranty Obligations” contained herein, exceeds (ii) \$4,800,000; it being understood that Scheduled Funded Debt Payments shall not include any one-time “bullet”, “lump sum” or “balloon” payments due on the maturity date of Funded Indebtedness.

“Secured Debt” means, for any given calculation date, the total aggregate principal amount of any Indebtedness (other than Indebtedness incurred hereunder) of the Consolidated Parties, on a consolidated basis, that is (a) secured in any manner by any Lien or (b) entitled to the benefit of a Negative Pledge. Indebtedness in respect of obligations under any Capitalized Lease shall not be deemed to be Secured Debt. For clarification purposes, (i) any unsecured guaranty given by any Consolidated Party of secured indebtedness of a Person who is not a Consolidated Party constitutes Unsecured Debt of such Consolidated Party giving the guaranty, (ii) any unsecured guaranty given by any Consolidated Party of the secured indebtedness of another Consolidated Party constitutes the Secured Debt of the Consolidated Party directly incurring the secured indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying secured indebtedness, in which case it shall constitute the Unsecured Debt of the Consolidated Party giving the guaranty), (iii) any unsecured guaranty given by any Consolidated Party of the unsecured indebtedness of a Person who is not a Consolidated Party constitutes the Unsecured Debt of such Consolidated Party giving the guaranty, (iv) any unsecured guaranty given by any Consolidated Party of the unsecured Indebtedness of another Consolidated Party constitutes the Unsecured Debt of the Consolidated Party directly incurring such Indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying unsecured indebtedness, in which case it shall constitute the Unsecured Debt of the Consolidated Party giving the guaranty), (v) any secured guaranty given by any Consolidated Party of secured indebtedness of a Person who is not a Consolidated Party constitutes Secured Debt of such Consolidated Party giving the guaranty, (vi) any secured guaranty given by any Consolidated Party of the secured indebtedness of another Consolidated Party constitutes the Secured Debt of the Consolidated Party directly incurring the secured indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying secured indebtedness, in which case it shall constitute the Secured Debt of the Consolidated Party giving the guaranty), (vii) any secured guaranty given by any Consolidated Party of the unsecured indebtedness of a Person who is not a Consolidated Party constitutes the Secured Debt of such Consolidated Party giving the guaranty, and (viii) any secured guaranty given by any Consolidated Party of the unsecured Indebtedness of another Consolidated Party constitutes the Secured Debt of such Consolidated Party giving the guaranty and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of the Consolidated Party directly incurring such Indebtedness (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of such Consolidated Party giving the guaranty, in which case it shall constitute the Unsecured Debt of the Consolidated Party directly incurring the underlying unsecured indebtedness).

“Sole Book Manager” shall have the meaning assigned to such term in the heading hereof, together with any successors or assigns.

“Sole Lead Arranger” shall have the meaning assigned to such term in the heading hereof, together with any successors or assigns.

“Solvent” or “Solvency” means, with respect to any Person as of a particular date, that on such date (i) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (ii) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay as such debts and liabilities mature in their ordinary course, (iii) such Person is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such Person’s property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which

such Person is engaged or is to engage, (iv) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person and (v) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Speculative Land” means, at any given time, all land owned by any Borrower, any Consolidated Party or any unconsolidated affiliate thereof that has not been developed and is not currently being developed.

“Straight-Lining of Rents” means, with respect to any lease, the method by which rent received with respect to such lease is considered earned equally over the term of such lease despite the existence of (i) any free rent periods under such lease and (ii) any rent step-up provisions under such lease.

“Subsidiary” means, as to any Person, (a) any corporation more than 50% of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50% equity interest at any time.

“Supermajority Lenders” means at any time, Lenders which are then in compliance with their obligations hereunder (as determined by the Administrative Agent) and holding in the aggregate at least seventy-five percent (75%) of (i) the Revolving Commitments (and Participation Interests therein) or (ii) if the Commitments have been terminated, the outstanding Loans and Participation Interests (including the Participation Interests of the Issuing Lender in any Letters of Credit).

“Swingline Commitment” means the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding of up to the Swingline Committed Amount.

“Swingline Committed Amount” shall have the meaning assigned to such term in Section 2.4(a).

“Swingline Lender” means Bank of America.

“Swingline Loan” shall have the meaning assigned to such term in Section 2.4(a).

“Swingline Note” means the promissory note of the Borrowers in favor of the Swingline Lender evidencing the Swingline Loans provided pursuant to Section 2.4(d), as such promissory note may be amended, modified, restated, supplemented, extended, renewed or replaced from time to time.

“Syndication Agent” shall have the meaning set forth in the first paragraph of this Credit Agreement, together with any successor or assigns.

“Syndication Letter” means that certain syndication letter agreement dated as of March 24, 2003 by and among the Borrower, the Administrative Agent and the Arranger.

“Synthetic Lease” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an Operating Lease for GAAP purposes.

“Tangible Net Worth” means, as of any date, the sum of (i) shareholders’ equity or net worth of the Consolidated Parties on a consolidated basis, plus (ii) an amount equal to that portion attributable to Highwoods Realty of the line item “minority interests”, as shown on the consolidated balance sheet of Highwoods

Properties, less (iii) all intangible assets of the Consolidated Parties on a consolidated basis, in each case as determined in accordance with GAAP.

“Taxes” means such term as is defined in Section 3.11.

“Third Debt Rating” means the unsecured long term debt rating from a Third Rating Agency.

“Third Rating Agency” means a nationally recognized rating agency (other than S&P or Moody’s) reasonably satisfactory to the Administrative Agent.

“TL/TA Ratio” means, as of any date of calculation, the ratio of (i) Total Liabilities to (ii) Total Assets.

“Total Assets” means the sum of, without duplication, (a) the aggregate Annualized Adjusted NOI of all Properties except Properties that are Speculative Land, Acquired Properties, Highwoods Preserve Properties, Properties Under Development or Transition Properties, divided by the Capitalization Rate; plus (b) the aggregate value of all Acquired Properties at cost; plus (c) the aggregate value of all Speculative Land at cost; plus (d) the aggregate value of all Properties Under Development at cost; plus (e) the aggregate value of all Transition Properties at cost; plus (f) cash and Cash Equivalents held by the Borrower or any Consolidated Party (including, without duplication, the pro rata share of any cash and Cash Equivalents held by any Minority Interest Entity which are attributable to any Minority Interests); plus (g) Notes Receivable; plus (h) the aggregate value of the Highwoods Preserve Properties based on (i) prior to the date on which seventy-five percent (75.0%) of the gross leasable space contained in such Properties are occupied by tenants under valid and effective leases, one hundred percent (100.0%) of the appraised value of such Properties (as taken from appraisals in form and substance acceptable to the Administrative Agent and issued by appraisers acceptable to the Administrative Agent, in its reasonable discretion); and (ii) following such date, the aggregate Annualized Adjusted NOI of such Properties divided by the Capitalization Rate; provided, that, in each case, all of the above amounts not otherwise adjusted to account for Outside Interests shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to the Outside Interests.

“Total Liabilities” means the sum of (i) total liabilities of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (ii) an amount equal to the aggregate of total liabilities, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity plus (iii) without duplication, the Indebtedness of the Consolidated Parties on a consolidated basis plus (iv) without duplication, the aggregate of Indebtedness of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity; provided, that in each case, all of the above amounts not otherwise adjusted to account for Outside Interests shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to the Outside Interests (except to the extent any Credit Party would be legally liable for the full amount of such liabilities).

“Total Outstandings” means, as of any calculation date, the aggregate Outstanding Amount of (i) all Loans; and (ii) all LOC Obligations as of such date.

“Transition Property” means a Property which has ceased to be a Property Under Development pursuant to subsection (i) of the definition thereof; provided that such Property shall be considered a Transition Property until such time as (i) seventy-five percent (75%) of the gross leasable space to be contained therein has been occupied by tenants under fully executed leases for an entire calendar quarter, in which case such Property shall thereafter at all times be considered only a “Property” (and not a Transition Property, Property Under Development, CIP Property, Speculative Land or Acquired Property) or (ii) less than seventy-five percent (75%) of the gross leasable space to be contained therein is occupied by tenants under fully executed leases, in which case such Property shall be considered a Property Under Development and shall again be subject to the provisions set forth in the definition of such term; provided, however that, notwithstanding the foregoing definition, Properties qualifying as Highwoods Preserve Properties shall not be considered “Transition Properties” for purposes of this Credit Agreement.

“Unencumbered Assets” means the sum of, without duplication:

(a) the aggregate Annualized Adjusted NOI of all Properties wholly owned directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party except Properties that are Speculative Land, Acquired Properties, Highwoods Preserve Properties, Properties Under Development or Transition Properties, (i) that are operating and generate revenues from third parties and (ii) that are not subject to any Liens; divided by the Capitalization Rate; plus

(b) the aggregate value at cost of all Acquired Properties wholly owned directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party (i) that are operating and generate revenues from third parties and (ii) that are not subject to any Liens; plus

(c) the aggregate value at cost of all Properties Under Development wholly owned directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party that do not qualify as CIP Properties that are not subject to any Liens; plus

(d) the aggregate value at cost of all Transition Properties wholly owned directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party that are not subject to any Liens; plus

(e) the aggregate value at cost of all CIP Properties wholly owned directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party that are not subject to any Liens; provided, however, that if the aggregate value of such CIP Properties exceeds five percent (5%) of the aggregate amount calculated under subsections (a), (b), (c) and (d) of this definition, the value of such CIP Properties in excess of five percent (5%) of the aggregate amount calculated under such subsections (a), (b), (c), (d) and (g) of this definition shall be excluded in the determination of Unencumbered Assets hereunder; plus

(f) the aggregate value of the Highwoods Preserve Properties based on (i) prior to the date on which seventy-five percent (75.0%) of the gross leasable space contained in such Properties are occupied by tenants under valid and effective leases, one hundred percent (100.0%) of the appraised value of such Properties (as taken from appraisals in form and substance acceptable to the Administrative Agent and issued by appraisers acceptable to the Administrative Agent, in its reasonable discretion); and (ii) following such date, the aggregate Annualized Adjusted NOI of such Properties, divided by the Capitalization Rate; plus

(g) cash and Cash Equivalents held directly by the Borrowers or any Wholly Owned Subsidiary which is a Credit Party;

in each case to the extent such Properties and other assets are not subject to any Liens. Notwithstanding the foregoing, if the aggregate value of the Properties Under Development, Transition Properties and CIP Properties calculated pursuant to subsections (c), (d) and (e) of this definition exceeds twenty percent (20%) of the aggregate amount calculated under subsections (a), (b), (c), (d), (e) and (g) of this definition, then the amount of such aggregate value in excess of such twenty percent (20%) shall be excluded in the determination of Unencumbered Assets hereunder.

For purposes of this definition, a Property being acquired by a Borrower or a Wholly Owned Subsidiary using the “safe harbor parking” or “reverse exchange” provisions of IRS Rev. Proc. 2000-37 will be considered to be wholly owned directly by a Borrower or a Wholly Owned Subsidiary notwithstanding the fact that legal title to such Property is vested in a third party so long as (i) such Borrower or Wholly Owned Subsidiary, as the case may be, has an absolute right to acquire such Property from such third party, (ii) any note receivable and any cash balance still to be paid held by such Borrower or Wholly Owned Subsidiary with respect to any credit extended by such Person to the third party holding

legal title to the applicable Property is not included in the Total Assets of such Borrower or Wholly Owned Subsidiary and (iii) to the extent such Property is not the subject of a so-called “reverse 1031 exchange” transaction pursuant to section 1031 of the Code and IRS Rev. Proc. 2000-37 within the time limits established pursuant thereto, such Property will become the property of the applicable Borrower or Wholly Owned Subsidiary without the delivery by such Person of additional consideration therefor.

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“Unsecured Debt” means, for any given calculation date, the total aggregate principal amount of Indebtedness of the Consolidated Parties, on a consolidated basis, that is not Secured Debt, including all Indebtedness in respect of obligations under any Capitalized Leases; it being understood that Unsecured Debt shall not include principal amounts available to be drawn (but not drawn) under outstanding commitments. For clarification purposes, (i) any unsecured guaranty given by any Consolidated Party of secured indebtedness of a Person who is not a Consolidated Party constitutes Unsecured Debt of such Consolidated Party giving the guaranty, (ii) any unsecured guaranty given by any Consolidated Party of the secured indebtedness of another Consolidated Party constitutes the Secured Debt of the Consolidated Party directly incurring the secured indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying secured indebtedness, in which case it shall constitute the Unsecured Debt of the Consolidated Party giving the guaranty), (iii) any unsecured guaranty given by any Consolidated Party of the unsecured indebtedness of a Person who is not a Consolidated Party constitutes the Unsecured Debt of such Consolidated Party giving the guaranty, (iv) any unsecured guaranty given by any Consolidated Party of the unsecured Indebtedness of another Consolidated Party constitutes the Unsecured Debt of the Consolidated Party directly incurring such Indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying unsecured indebtedness, in which case it shall constitute the Unsecured Debt of the Consolidated Party giving the guaranty), (v) any secured guaranty given by any Consolidated Party of secured indebtedness of a Person who is not a Consolidated Party constitutes Secured Debt of such Consolidated Party giving the guaranty, (vi) any secured guaranty given by any Consolidated Party of the secured indebtedness of another Consolidated Party constitutes the Secured Debt of the Consolidated Party directly incurring the secured indebtedness and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of such Consolidated Party giving the guaranty (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of the Consolidated Party directly incurring the underlying secured indebtedness, in which case it shall constitute the Secured Debt of the Consolidated Party giving the guaranty), (vii) any secured guaranty given by any Consolidated Party of the unsecured indebtedness of a Person who is not a Consolidated Party constitutes the Secured Debt of such Consolidated Party giving the guaranty, and (viii) any secured guaranty given by any Consolidated Party of the unsecured Indebtedness of another Consolidated Party constitutes the Secured Debt of such Consolidated Party giving the guaranty and shall not be calculated as part of the Indebtedness (either Secured or Unsecured) of the Consolidated Party directly incurring such Indebtedness (except to the extent that the relevant calculation does not otherwise account for the Indebtedness of such Consolidated Party giving the guaranty, in which case it shall constitute the Unsecured Debt of the Consolidated Party directly incurring the underlying unsecured indebtedness). For purposes of calculating the financial covenants contained herein, obligations of any Consolidated Party pursuant to the terms of any Letter of Credit shall be treated in the same manner as a guaranty to the extent the purpose of such Letter of Credit is to credit enhance other debt of any Consolidated Party. Further, notwithstanding anything to the contrary contained in the foregoing, if an obligation of the Consolidated Parties is included in the calculation of the Indebtedness of the Consolidated Parties solely as a result of such obligation’s being deemed a “Guaranty Obligation” pursuant to clause (iv) of the definition of Guaranty Obligations contained herein, such obligation

shall not be included in the determination of the Consolidated Parties' Unsecured Debt (A) if the Administrative Agent has received evidence that the applicable Consolidated Party is maintaining adequate and reasonable cash reserves (as calculated through the use of a methodology acceptable to the Administrative Agent in its discretion) with respect to such obligation in segregated accounts which, during the existence of such obligation, will be accessible only for the purpose of satisfying such obligation in the event of a Consolidated Party's being subject to liability therefor; or (B) to the extent the aggregate amount of the obligations excluded pursuant to this sentence (exclusive of obligations excluded pursuant to clause (A) above) is, as of any date of calculation, equal or less than the lesser of (1) \$50,000,000.00 and (2) 2.5% of Unencumbered Assets as of such date.

"Unsecured Long Term Debt Rating" means with respect to Highwoods Properties (i) at such time that Highwoods Properties maintains an unsecured long term debt rating from each of Moody's, S&P and the Third Rating Agency, the lower of the two highest of such publicly announced ratings for the unsecured long term debt rating of Highwoods Properties, (ii) at such time that Highwoods Properties maintains an unsecured long term debt rating from only two (2) of the above-referenced agencies (one of which must be Moody's or S&P), the lower of the publicly announced ratings from each such agency for the unsecured long term debt rating of Highwoods Properties or (iii) at such time that Highwoods Properties fails to maintain an unsecured long term debt rating from at least two (2) of the above-referenced agencies (one of which must be Moody's or S&P), the unsecured long term debt rating equivalent to BB+ from S&P and Ba1 from Moody's.

"Voting Stock" means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Wholly Owned Subsidiary" means, (a) with respect to Highwoods Realty, any direct or indirect Subsidiary of Highwoods Realty 100% of whose Voting Stock is owned by (i) Highwoods Realty, (ii) Highwoods Realty and Highwoods Properties, or (iii) Highwoods Realty and one or more of Highwoods Properties or another Wholly Owned Subsidiary of Highwoods Realty and (b) with respect to Highwoods Properties, (i) Highwoods Realty, (ii) any Wholly Owned Subsidiary of Highwoods Realty, or (iii) any direct or indirect Subsidiary of Highwoods Properties 100% of whose Voting Stock is owned by Highwoods Properties or by one or more of Highwoods Realty and a Wholly Owned Subsidiary of Highwoods Realty.

"2000 Credit Agreement" shall have the meaning given that term in the first paragraph of this Agreement.

1.2 Computation of Time Periods .

For purposes of computation of periods of time hereunder, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding."

1.3 Accounting Terms .

Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall be prepared, in accordance with GAAP applied on a consistent basis. All calculations made for the purposes of determining compliance with this Credit Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with the most recent annual or quarterly financial statements delivered pursuant to Section 7.1 (or, prior to the delivery of the first financial statements pursuant to Section 7.1, consistent with the financial statements delivered as of _____, _____ pursuant to the terms of the 2000 Credit Agreement for the calendar quarter ending on December 31, 2002); provided, however, if (a) the Principal Borrower shall object to determining such compliance on such basis at the time of delivery of such financial statements due to any change in GAAP or the rules promulgated with respect thereto or (b) the Administrative Agent or the Required Lenders shall so object in writing within 30 days after delivery of such financial statements, then such calculations shall be made on a

basis consistent with the most recent financial statements delivered by the Principal Borrower to the Lenders as to which no such objection shall have been made.

1.4 Calculation of Values .

To the extent any calculation of the value of any Property contained herein is based on the appraised value of such Property, the Administrative Agent shall have the right, in its discretion (or at the request of the Required Lenders) to obtain, in addition to any appraisals obtained on or prior to the date hereof, additional appraisals with respect to each such Property not more than once every twelve (12) calendar months after the date hereof, and such cost of such additional appraisals shall be paid by Borrower to the Administrative Agent on demand pursuant to Section 11.5 hereof.

SECTION 2

CREDIT FACILITIES

2.1 Revolving Loans .

(a) Revolving Commitment . Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make available to the Borrowers such Lender's Commitment Percentage of revolving credit loans requested by the Borrowers in Dollars (" Revolving Loans ") from time to time from the Closing Date until the Maturity Date, or such earlier date as the Revolving Commitments shall have been terminated as provided herein for the purposes hereinafter set forth; provided, however , that the sum of the aggregate principal amount of outstanding Revolving Loans shall not exceed **TWO HUNDRED FIFTY MILLION DOLLARS (\$250,000,000)** (as such aggregate maximum amount may be reduced from time to time as provided in Section 3.4, the " Revolving Committed Amount "); provided, further , (i) with regard to each Lender individually, such Lender's outstanding Revolving Loans shall not exceed such Lender's Commitment Percentage of the Revolving Committed Amount, and (ii) with regard to the Lenders collectively, the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall not exceed the Revolving Committed Amount. Revolving Loans may consist of Base Rate Loans or Eurodollar Loans, or a combination thereof, as the Borrowers may request, and may be repaid and reborrowed in accordance with the provisions hereof; provided, however , that no more than ten (10) Eurodollar Loans shall be outstanding hereunder at any time. For purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period. Revolving Loans hereunder may be repaid and reborrowed in accordance with the provisions hereof.

(b) Revolving Loan Borrowings .

(i) Notice of Borrowing . One or more of the Borrowers shall request a Revolving Loan borrowing by delivery of a Notice of Borrowing, together with the officer's certificate required by Section 5.2(e), to the Administrative Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day prior to the date of the requested borrowing in the case of Base Rate Loans, and on the third Business Day prior to the date of the requested borrowing in the case of Eurodollar Loans. Each such request for borrowing shall be irrevocable and shall specify (A) that a Revolving Loan is requested, (B) the date of the requested borrowing (which shall be a Business Day), (C) the aggregate principal amount to be borrowed, (D) whether the borrowing shall be comprised of Base Rate Loans, Eurodollar Loans or a combination thereof, and if Eurodollar Loans are requested, the Interest Period(s) therefor and (E) the purpose for which the requested Revolving Loans will be used by the applicable Borrower. If the applicable Borrower shall fail to specify in any such Notice of Borrowing the type of Revolving Loan requested, then such notice shall be deemed to be a request for a Base Rate Loan hereunder. The Administrative Agent shall give notice to each Lender promptly

upon receipt of each Notice of Borrowing pursuant to this Section 2.1(b)(i), the contents thereof and each such Lender's share of any borrowing to be made pursuant thereto.

(ii) Minimum Amounts . Except as provided in Sections 2.3(d) and 2.3(e), each Eurodollar Loan that is a Revolving Loan shall be in a minimum aggregate principal amount of \$5,000,000 and integral multiples of \$500,000 in excess thereof (or the remaining amount of the Revolving Committed Amount, if less), and each Base Rate Loan that in a Revolving Loan shall be in a minimum aggregate principal amount of \$1,000,000 and integral multiples of \$500,000 in excess thereof (or the remaining amount of the Revolving Committed Amount, if less).

(iii) Advances . Each Lender will make its Commitment Percentage of each Revolving Loan borrowing available to the Administrative Agent for the account of one or more of the Borrowers as specified in Section 3.15(a), or in such other manner as the Administrative Agent may specify in writing, by 1:00 P.M. (Charlotte, North Carolina time) on the date specified in the applicable Notice of Borrowing in Dollars and in funds immediately available to the Administrative Agent. Such borrowing will then be made available to one or more of the Borrowers by the Administrative Agent by crediting the account of the applicable Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

(c) Repayment . The principal amount of all Revolving Loans shall be due and payable in full on the Maturity Date, unless accelerated sooner pursuant to Section 9.2.

(d) Interest . Subject to the provisions of Section 3.1,

(i) Base Rate Loans . During such periods as Revolving Loans shall be comprised in whole or in part of Base Rate Loans, such Base Rate Loans shall bear interest at a per annum rate equal to the Adjusted Base Rate;

(ii) Eurodollar Loans . During such periods as Revolving Loans shall be comprised in whole or in part of Eurodollar Loans, such Eurodollar Loans shall bear interest at a per annum rate equal to the Adjusted Eurodollar Rate.

Interest on Revolving Loans shall be payable in arrears on each applicable Interest Payment Date (or at such other times as may be specified herein). The Administrative Agent shall endeavor in the ordinary course of business to give notice to each Lender promptly upon any change in the Applicable Percentage.

(e) Revolving Notes . The Revolving Loans made by each Lender shall be evidenced by a duly executed promissory note of the Borrowers to such Lender in substantially the form of Exhibit 2.1(e) .

2.2 Reserved .

2.3 Letter of Credit Subfacility .

(a) Issuance . Subject to the terms and conditions hereof and of the LOC Documents, if any, and any other terms and conditions which the Issuing Lender may reasonably require and in reliance upon the representations and warranties set forth herein, the Issuing Lender agrees to issue, and each Lender severally agrees to participate in the issuance by the Issuing Lender of, Letters of Credit in Dollars from time to time from the Closing Date until the date thirty (30) days prior to the Maturity Date as a Borrower may request, in a written form acceptable to the Issuing Lender (such form must be signed by a Responsible Officer and must include a representation and warranty of the correctness of the matters specified in subsections (b), (c), (d), (f) and (g) of Sections 5.2); provided, however, that (i) the LOC Obligations outstanding shall not at any time exceed **TWENTY MILLION DOLLARS (\$20,000,000)** (the "LOC Committed Amount") and (ii) the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall not at any time exceed the aggregate Revolving Committed Amount. No Letter of Credit shall (x) have an original expiry date more than one year

from the date of issuance or (y) as originally issued or as extended, have an expiry date extending beyond the Maturity Date. Each Letter of Credit shall comply with the related LOC Documents. The issuance and expiry dates of each Letter of Credit shall be a Business Day.

(b) Notice and Reports. The request for the issuance of a Letter of Credit shall be submitted by a Borrower to the Issuing Lender at least five (5) Business Days prior to the requested date of issuance and shall be accompanied by the officer's certificate required by Section 5.2(e). The Issuing Lender will upon the issuance of a Letter of Credit and at least quarterly and more frequently upon request, disseminate to each of the Lenders a detailed report specifying the Letters of Credit which are then issued and outstanding and any activity with respect thereto which may have occurred since the date of the prior report, and including therein, among other things, the beneficiary, the face amount and the expiry date, as well as any payment or expirations which may have occurred.

(c) Participation. Each Lender, with respect to the Existing Letters of Credit, hereby purchases a Participation Interest in such Existing Letters of Credit, and with respect to the Letters of Credit issued on or after the Closing Date, upon issuance of a Letter of Credit, shall be deemed to have purchased without recourse a Participation Interest from the Issuing Lender in such Letter of Credit and the obligations arising thereunder and any collateral relating thereto, in each case in an amount equal to its Pro Rata Share of the obligations under such Letter of Credit (based on the respective Commitment Percentages of the Lenders) and shall absolutely, unconditionally and irrevocably assume and be obligated to pay to the Issuing Lender and discharge when due, its Pro Rata Share of the obligations arising under such Letter of Credit. Notwithstanding the preceding sentence, in the event that the Issuing Lender issues a Letter of Credit hereunder when the officers of the Issuing Lender directly involved with the credit facilities available to the Borrowers under this Credit Agreement have actual knowledge that a monetary Event of Default or material Event of Default (which, for the avoidance of doubt shall include any violation of any provisions of Section 7.11) has occurred and is continuing, the Lenders shall have the option but not the obligation to pay to the Issuing Lender their Pro Rata Share of the obligations arising under such Letter of Credit as contemplated herein. Without limiting the scope and nature of each Lender's Participation Interest in any Letter of Credit, to the extent that the Issuing Lender has not been reimbursed as required hereunder or under any such Letter of Credit, each such Lender shall pay to the Issuing Lender its Pro Rata Share of such unreimbursed drawing in same day funds on the day of notification by the Issuing Lender of an unreimbursed drawing pursuant to the provisions of subsection (d) below. The obligation of each Lender to so reimburse the Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of a Default, an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of the Borrowers to reimburse the Issuing Lender under any Letter of Credit, together with interest as hereinafter provided.

(d) Reimbursement. In the event of any drawing under any Letter of Credit, the Issuing Lender will promptly notify the Borrower that was the applicant for such Letter of Credit. Unless such Borrower shall immediately notify the Issuing Lender that such Borrower intends to otherwise reimburse the Issuing Lender for such drawing, such Borrower shall be deemed to have requested that the Lenders make a Revolving Loan in the amount of the drawing as provided in subsection (e) below on the related Letter of Credit, the proceeds of which will be used to satisfy the related reimbursement obligations. Each Borrower that is an applicant under a Letter of Credit promises to reimburse the Issuing Lender on the day of drawing under any Letter of Credit (either with the proceeds of a Revolving Loan obtained hereunder or otherwise) in same day funds. If such Borrower shall fail to reimburse the Issuing Lender as provided hereinabove, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the Adjusted Base Rate plus 2%. Such Borrower's reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of setoff, counterclaim or defense to payment such Borrower may claim or have against the Issuing Lender, the Administrative Agent, the Lenders, the beneficiary of the Letter of Credit drawn upon or any other Person, including without limitation any defense based on any failure of such Borrower or any other Credit Party to receive consideration or the legality, validity, regularity or unenforceability of the Letter of Credit. The Issuing Lender will promptly notify the other Lenders of the amount of any unreimbursed drawing and each Lender shall promptly pay to the Administrative Agent for the account of the Issuing Lender in Dollars and in immediately available funds, the amount of such Lender's Pro Rata Share of such unreimbursed drawing. Such payment shall be made on the day such notice is received by such Lender from the Issuing Lender if such notice is received at or before 2:00 P.M. (Charlotte, North Carolina time) otherwise such

payment shall be made at or before 12:00 Noon (Charlotte, North Carolina time) on the Business Day next succeeding the day such notice is received. If such Lender does not pay such amount to the Issuing Lender in full upon such request, such Lender shall, on demand, pay to the Administrative Agent for the account of the Issuing Lender interest on the unpaid amount during the period from the date of such drawing until such Lender pays such amount to the Issuing Lender in full at a rate per annum equal to, if paid within two (2) Business Days of the date that such Lender is required to make payments of such amount pursuant to the preceding sentence, the Federal Funds Rate and thereafter at a rate equal to the Base Rate. Each Lender's obligation to make such payment to the Issuing Lender, and the right of the Issuing Lender to receive the same, shall be absolute and unconditional, shall not be affected by any circumstance whatsoever and without regard to the termination of this Credit Agreement or the Commitments hereunder, the existence of a Default or Event of Default or the acceleration of the obligations of any Borrower hereunder and shall be made without any offset, abatement, withholding or reduction whatsoever. Simultaneously with the making of each such payment by a Lender to the Issuing Lender, such Lender shall, automatically and without any further action on the part of the Issuing Lender or such Lender, acquire a Participation Interest in an amount equal to such payment (excluding the portion of such payment constituting interest owing to the Issuing Lender) in the related unreimbursed drawing portion of the LOC Obligation and in the interest thereon and in the related LOC Documents, and shall have a claim against such Borrower and the other Credit Parties with respect thereto.

(e) Repayment with Revolving Loans . On any day on which any Borrower shall have requested, or been deemed to have requested, a Revolving Loan advance to reimburse a drawing under a Letter of Credit, the Administrative Agent shall give notice to the Lenders that a Revolving Loan has been requested or deemed requested by such Borrower to be made in connection with a drawing under a Letter of Credit, in which case a Revolving Loan advance comprised of Base Rate Loans (or Eurodollar Loans to the extent such Borrower has complied with the procedures of Section 2.1(b)(i) with respect thereto) shall be immediately made to such Borrower by all Lenders (notwithstanding any termination of the Commitments pursuant to Section 9.2) pro rata based on the respective Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2) and the proceeds thereof shall be paid directly to the Issuing Lender for application to the respective LOC Obligations. Each such Lender hereby irrevocably agrees to make its Pro Rata Share of each such Revolving Loan immediately upon any such request or deemed request in the amount, in the manner and on the date specified in the preceding sentence notwithstanding (i) the amount of such borrowing may not comply with the minimum amount for advances of Revolving Loans otherwise required hereunder, (ii) whether any conditions specified in Section 5.2 are then satisfied, (iii) whether a Default or an Event of Default then exists, (iv) failure for any such request or deemed request for Revolving Loan to be made by the time otherwise required hereunder, (v) whether the date of such borrowing is a date on which Revolving Loans are otherwise permitted to be made hereunder or (vi) any termination of the Commitments relating thereto immediately prior to or contemporaneously with such borrowing. In the event that any Revolving Loan cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to any one of the Borrowers or any Credit Party), then each such Lender hereby agrees that it shall forthwith purchase (as of the date such borrowing would otherwise have occurred, but adjusted for any payments received from the Borrowers on or after such date and prior to such purchase) from the Issuing Lender such Participation Interests in the outstanding LOC Obligations as shall be necessary to cause each such Lender to share in such LOC Obligations ratably (based upon the respective Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2)), provided that at the time any purchase of Participation Interests pursuant to this sentence is actually made, the purchasing Lender shall be required to pay to the Issuing Lender, to the extent not paid to the Issuer by the Borrowers in accordance with the terms of subsection (d) above, interest on the principal amount of Participation Interests purchased for each day from and including the day upon which such borrowing would otherwise have occurred to but excluding the date of payment for such Participation Interests, at the rate equal to, if paid within two (2) Business Days of the date of the Revolving Loan advance, the Federal Funds Rate, and thereafter at a rate equal to the Base Rate.

(f) Renewal, Extension . The renewal or extension of any Letter of Credit shall, for purposes hereof, be treated in all respects the same as the issuance of a new Letter of Credit hereunder.

(g) Uniform Customs and Practices. The Issuing Lender may have the Letters of Credit be subject to The Uniform Customs and Practice for Documentary Credits, as published as of the date of issue by the International Chamber of Commerce (the “UCP”), in which case the UCP may be incorporated therein and deemed in all respects to be a part thereof.

(h) Indemnification; Nature of Issuing Lender’s Duties.

(i) In addition to its other obligations under this Section 2.3, each Borrower that is an applicant with respect to a Letter of Credit hereby agrees to pay, and protect, indemnify and save each Lender harmless from and against, any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys’ fees) that such Lender may incur or be subject to as a consequence, direct or indirect, of (A) the issuance of any Letter of Credit or (B) the failure of such Lender to honor a drawing under a Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or Governmental Authority (all such acts or omissions, herein called “Government Acts”).

(ii) As between the Borrower that is the applicant for a Letter of Credit and the Lenders (including the Issuing Lender), such Borrower shall assume all risks of the acts, omissions or misuse of any Letter of Credit by the beneficiary thereof. No Lender (including the Issuing Lender) shall be responsible: (A) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for and issuance of any Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (B) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, that may prove to be invalid or ineffective for any reason; (C) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (D) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under a Letter of Credit or of the proceeds thereof; and (E) for any consequences arising from causes beyond the control of such Lender, including, without limitation, any Government Acts. None of the above shall affect, impair, or prevent the vesting of the Issuing Lender’s rights or powers hereunder.

(iii) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by any Lender (including the Issuing Lender), under or in connection with any Letter of Credit or the related certificates, if taken or omitted in good faith, shall not put such Lender under any resulting liability to such Borrower or any other Credit Party. It is the intention of the parties that this Credit Agreement shall be construed and applied to protect and indemnify each Lender (including the Issuing Lender) against any and all risks involved in the issuance of the Letters of Credit, all of which risks are hereby assumed by the Borrowers (on behalf of itself and each of the other Credit Parties), including, without limitation, any and all Government Acts. No Lender (including the Issuing Lender) shall, in any way, be liable for any failure by such Lender or anyone else to pay any drawing under any Letter of Credit as a result of any Government Acts or any other cause beyond the control of such Lender.

(iv) Nothing in this subsection (h) is intended to limit the reimbursement obligations of the Borrowers contained in subsection (d) above. The obligations of the Borrowers under this subsection (h) shall survive the termination of this Credit Agreement. No act or omissions of any current or prior beneficiary of a Letter of Credit shall in any way affect or impair the rights of the Lenders (including the Issuing Lender) to enforce any right, power or benefit under this Credit Agreement.

(v) Notwithstanding anything to the contrary contained in this subsection (h), the Borrowers shall have no obligation to indemnify any Lender (including the Issuing Lender) in respect of any liability incurred by such Lender (A) arising solely out of the gross negligence or willful misconduct of such Lender, as determined by a court of competent jurisdiction, or (B) caused by such Lender’s failure to pay under any Letter of Credit after presentation to it of a request strictly

complying with the terms and conditions of such Letter of Credit, as determined by a court of competent jurisdiction, unless such payment is prohibited by any law, regulation, court order or decree.

(i) Responsibility of Issuing Lender. It is expressly understood and agreed that the obligations of the Issuing Lender hereunder to the Lenders are only those expressly set forth in this Credit Agreement and that the Issuing Lender shall be entitled to assume that the conditions precedent set forth in Section 5.2 have been satisfied unless it shall have acquired actual knowledge that any such condition precedent has not been satisfied; provided, however, that nothing set forth in this Section 2.3 shall be deemed to prejudice the right of any Lender to recover from the Issuing Lender any amounts made available by such Lender to the Issuing Lender pursuant to this Section 2.3 in the event that it is determined by a court of competent jurisdiction that the payment with respect to a Letter of Credit constituted gross negligence or willful misconduct on the part of the Issuing Lender.

(j) Conflict with LOC Documents. In the event of any conflict between this Credit Agreement and any LOC Document (including any letter of credit application), this Credit Agreement shall control.

2.4 Swingline Loan Subfacility.

(a) Swingline Commitment. Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein, the Swingline Lender, in its individual capacity, agrees to make certain revolving credit loans requested by the Borrowers in Dollars to the Borrowers (each a “Swingline Loan” and, collectively, the “Swingline Loans”) from time to time from the Closing Date until the Maturity Date for the purposes hereinafter set forth; provided, however, (i) the aggregate principal amount of Swingline Loans outstanding at any time shall not exceed **TWENTY-FIVE MILLION DOLLARS (\$25,000,000)** (the “Swingline Committed Amount”), and (ii) the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall not exceed the Revolving Committed Amount. Swingline Loans hereunder shall be made as Base Rate Loans, shall bear interest as set forth in Section 2.4(c)(i) hereof, and may be repaid and reborrowed in accordance with the provisions hereof.

(b) Swingline Loan Advances.

(i) Notices; Disbursement. Whenever one or more of the Borrowers desires a Swingline Loan advance hereunder it shall deliver a Notice of Borrowing, together with the officer’s certificate required by Section 5.2(e), to the Swingline Lender not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of the requested Swingline Loan advance. Each such notice shall be irrevocable and shall specify (A) that a Swingline Loan advance is requested, (B) the date of the requested Swingline Loan advance (which shall be a Business Day), (C) the principal amount of the Swingline Loan advance requested, (D) the purpose for which the requested Swingline Loan will be used by the applicable Borrower and (E) that the representations and warranties made by the Credit Parties in any Credit Document are true and correct in all material respects at and as if made on the date hereof except to the extent they expressly relate to an earlier date. Each Swingline Loan shall be made as a Base Rate Loan and shall have such maturity date (which maturity date shall not be a date more than three (3) Business Days from the date of advance thereof) as the Swingline Lender and the applicable Borrower shall agree upon receipt by the Swingline Lender of any such notice from the applicable Borrower. The Swingline Lender shall initiate the transfer of funds representing the Swingline Loan advance to the applicable Borrower by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day of the requested borrowing.

(ii) Minimum Amounts. Each Swingline Loan advance shall be in a minimum principal amount of \$1,000,000 and in integral multiples of \$500,000 in excess thereof (or the remaining amount of the Swingline Committed Amount, if less).

(iii) Repayment of Swingline Loans. The principal amount of all Swingline Loans shall be due and payable on the earlier of (A) the maturity date agreed to by the Swingline Lender and the applicable Borrower with respect to such Loan (which maturity date shall not be a date more than three (3) Business Days from the date of advance thereof) and (B) the Maturity Date, at which time the Borrowers shall be deemed to have requested a Revolving Loan borrowing (which deemed request for a Revolving Loan borrowing shall constitute a representation and warranty by the Credit Parties of the correctness of the matters specified in subsections (b), (c), (d), (f) and (g) of Section 5.2) in the amount of the maturing Swingline Loan, the proceeds of which will be used to repay such Swingline Loan. The Swingline Lender may, at any time, in its sole discretion, by written notice to the Principal Borrower and the Lenders, demand repayment of its Swingline Loans by way of a Revolving Loan advance, in which case the Borrowers shall be deemed to have requested a Revolving Loan advance (which deemed request for a Revolving Loan borrowing shall constitute a representation and warranty by the Credit Parties of the correctness of the matters specified in subsections (b), (c), (d), (f) and (g) of Section 5.2) comprised solely of Base Rate Loans in the amount of such Swingline Loans; provided, however, that any such demand shall be deemed to have been given one Business Day prior to the Maturity Date and on the date of the occurrence of any Event of Default described in Section 9.1 and upon acceleration of the indebtedness hereunder and the exercise of remedies in accordance with the provisions of Section 9.2. Each Lender hereby irrevocably agrees to make its Pro Rata Share of each such Revolving Loan in the amount, in the manner and on the date specified in the preceding sentence notwithstanding (I) the amount of such borrowing may not comply with the minimum amount for advances of Revolving Loans otherwise required hereunder, (II) whether any conditions specified in Section 5.2 are then satisfied, (III) whether a Default or an Event of Default then exists, (IV) failure of any such request or deemed request for Revolving Loan to be made by the time otherwise required hereunder, (V) whether the date of such borrowing is a date on which Revolving Loans are otherwise permitted to be made hereunder or (VI) any termination of the Commitments relating thereto immediately prior to or contemporaneously with such borrowing. Notwithstanding the preceding sentence, in the event that the Swingline Lender funds a Swingline Loan hereunder when the officers of the Swingline Lender directly involved with the credit facilities available to the Borrowers under this Credit Agreement have actual knowledge that a monetary Event of Default or material Event of Default (which, for the avoidance of doubt shall include any violation of any provisions of Section 7.11) has occurred and is continuing, the Lenders shall have the option but not the obligation to make Revolving Loans to fund their ratable shares of such Swingline Loan as contemplated herein. In the event that any Revolving Loan cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to any one of the Borrowers or any other Credit Party), then each Lender hereby agrees that it shall forthwith purchase (as of the date such borrowing would otherwise have occurred, but adjusted for any payments received from the Borrowers on or after such date and prior to such purchase) from the Swingline Lender such Participation Interest in the outstanding Swingline Loans as shall be necessary to cause each such Lender to share in such Swingline Loans ratably based upon its Commitment Percentage of the Revolving Committed Amount (determined before giving effect to any termination of the Commitments pursuant to Section 3.4), provided that (A) all interest payable on the Swingline Loans shall be for the account of the Swingline Lender until the date as of which the respective Participation Interest is purchased and (B) at the time any purchase of Participation Interests pursuant to this sentence is actually made, the purchasing Lender shall be required to pay to the Swingline Lender, to the extent not paid to the Swingline Lender by the Borrowers in accordance with the terms of subsection (c)(ii) below, interest on the principal amount of Participation Interests purchased for each day from and including the day upon which such borrowing would otherwise have occurred to but excluding the date of payment for such Participation Interests, at the rate equal to the Federal Funds Rate.

(c) Interest on Swingline Loans.

(i) Interest. Subject to the provisions of Section 3.1, each Swingline Loan shall bear interest at a per annum rate (computed on the basis of the actual number of days elapsed over a year of 365 days or 366 days, as appropriate) equal to the Adjusted Base Rate.

(ii) Payment of Interest. Interest on Swingline Loans shall be payable in arrears on each applicable Interest Payment Date (or at such other times as may be specified herein), unless accelerated sooner pursuant to Section 9.2.

(d) Swingline Note. The Swingline Loans shall be evidenced by a duly executed promissory note of the Borrowers to the Swingline Lender in an original principal amount equal to the Swingline Committed Amount substantially in the form of Exhibit 2.4(d).

2.5 Reserved.

2.6 Joint and Several Liability of the Borrowers.

(a) Each of the Borrowers is accepting joint and several liability hereunder in consideration of the financial accommodation to be provided by the Lenders under this Credit Agreement, for the mutual benefit, directly and indirectly, of each of the Borrowers and in consideration of the undertakings of each of the Borrowers to accept joint and several liability for the obligations of each of them.

(b) Each of the Borrowers jointly and severally hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers with respect to the payment and performance of all of the Credit Party Obligations arising under this Credit Agreement and the other Credit Documents, it being the intention of the parties hereto that all the Credit Party Obligations shall be the joint and several obligations of each of the Borrowers without preferences or distinction among them.

(c) If and to the extent that any of the Borrowers shall fail to make any payment with respect to any of the obligations hereunder as and when due or to perform any of such obligations in accordance with the terms thereof, then in each such event, the other Borrowers will make such payment with respect to, or perform, such obligation.

(d) The obligations of each Borrower under the provisions of this Section 2.6 constitute full recourse obligations of such Borrower, enforceable against it to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Credit Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided herein, each Borrower hereby waives notice of acceptance of its joint and several liability, notice of occurrence of any Default or Event of Default (except to the extent notice is expressly required to be given pursuant to the terms of this Credit Agreement), or of any demand for any payment under this Credit Agreement, notice of any action at any time taken or omitted by the Lender under or in respect of any of the Credit Party Obligations hereunder, any requirement of diligence and, generally, all demands, notices and other formalities of every kind in connection with this Credit Agreement. Each Borrower hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Credit Party Obligations hereunder, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by the Lenders at any time or times in respect of any default by any Borrower in the performance or satisfaction of any term, covenant, condition or provision of this Credit Agreement, any and all other indulgences whatsoever by the Lenders in respect of any of the Credit Party Obligations hereunder, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of such Credit Party Obligations or the addition, substitution or release, in whole or in part, of any Borrower. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or any failure to act on the part of the Lender, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder which might, but for the provisions of this Section 2.6, afford grounds for terminating, discharging or relieving such Borrower, in whole or in part, from any of its obligations under this Section

2.6, it being the intention of each Borrower that, so long as any of the Credit Party Obligations hereunder remain unsatisfied, the obligations of such Borrower under this Section 2.6 shall not be discharged except by performance and then only to the extent of such performance. The obligations of each Borrower under this Section 2.6 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any reconstruction or similar proceeding with respect to any Borrower or any Lender. The joint and several liability of the Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, membership, constitution or place of formation of any Borrower or any Lender.

(f) The provisions of this Section 2.6 are made for the benefit of the Administrative Agent and the Lenders and their respective successors and assigns, and may be enforced by any such Person from time to time against any of the Borrowers as often as occasion therefor may arise and without requirement on the part of any Lender first to marshal any of its claims or to exercise any of its rights against any of the other Borrowers or to exhaust any remedies available to it against any of the other Borrowers or to resort to any other source or means of obtaining payment of any of the Credit Party Obligations or to elect any other remedy. Without limiting the generality of the foregoing, each Borrower hereby specifically waives the benefits of N.C. Gen. Stat. §§26-7 through 26-9, inclusive, to the extent applicable. The provisions of this Section 2.6 shall remain in effect until all the Credit Party Obligations hereunder shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Credit Party Obligations, is rescinded or must otherwise be restored or returned by the Lenders upon the insolvency, bankruptcy or reorganization of any of the Borrowers, or otherwise, the provisions of this Section 2.6 will forthwith be reinstated and in effect as though such payment had not been made.

(g) Notwithstanding any provision to the contrary contained herein or in any other of the Credit Documents or Hedging Agreements, the obligations of each Borrower hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any comparable provisions of any applicable state law.

2.7 Appointment of Principal Borrower as Agent for Borrowers .

Each of the Borrowers hereby appoints the Principal Borrower to act as its exclusive agent for all purposes under this Credit Agreement and the other Credit Documents (including, without limitation, with respect to all matters related to the borrowing and repayment of loans as described in Section 2 and Section 3 hereof). Each of the Borrowers acknowledges and agrees that (a) the Principal Borrower may execute such documents on behalf of all the Borrowers as the Principal Borrower deems appropriate in its sole discretion and each Borrower shall be bound by and obligated by all of the terms of any such document executed by the Principal Borrower on its behalf, (b) any notice or other communication delivered by the Administrative Agent or any Lender hereunder to the Principal Borrower shall be deemed to have been delivered to each of the Borrowers and (c) the Administrative Agent and each of the Lenders shall accept (and shall be permitted to rely on) any document or agreement executed by the Principal Borrower on behalf of the Borrowers (or any of them). The Borrowers must act through the Principal Borrower for all purposes under this Credit Agreement and the other Credit Documents. Notwithstanding anything contained herein to the contrary, to the extent any provision in this Credit Agreement requires any Borrower to interact in any manner with the Administrative Agent or the Lenders, such Borrower shall do so through the Principal Borrower.

SECTION 3

OTHER PROVISIONS RELATING TO CREDIT FACILITIES

3.1 Default Rate .

Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loans and any other amounts owing hereunder or under the other Credit Documents shall bear interest, payable on demand, at a per annum rate 4% greater than the rate which would otherwise be applicable (or if no rate is applicable, whether in respect of interest, fees or other amounts, then the Adjusted Base Rate plus 4%).

3.2 Extension and Conversion.

Subject to the terms of Section 5.2, the Borrowers shall have the option, on any Business Day, to extend existing Loans into a subsequent permissible Interest Period or to convert Loans into Loans of another interest rate type; provided, however, that (a) except as provided in Section 3.8, Eurodollar Loans may be converted into Base Rate Loans only (i) on the last day of the Interest Period applicable thereto or (ii) upon payment of all amounts due pursuant to the terms of Section 3.12, (b) Eurodollar Loans may be extended, and Base Rate Loans may be converted into Eurodollar Loans, only if no Default or Event of Default is in existence on the date of extension or conversion, (c) Loans extended as, or converted into, Eurodollar Loans shall be subject to the terms of the definition of “Interest Period” set forth in Section 1.1 and shall be in such minimum amounts as provided in, with respect to Revolving Loans, Section 2.1(b)(ii), (d) no more than ten (10) Eurodollar Loans shall be outstanding hereunder at any time (it being understood that, for purposes hereof, Eurodollar Loans with different Interest Periods shall be considered as separate Eurodollar Loans, even if they begin on the same date, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new Eurodollar Loan with a single Interest Period) and (e) Swingline Loans may not be extended or converted pursuant to this Section 3.2. Each such extension or conversion shall be effected by the Borrowers by delivery of a Notice of Extension/Conversion, together with the officer’s certificate required by Section 5.2(e), to the office of the Administrative Agent specified in specified in Schedule 2.1(a), or at such other office as the Administrative Agent may designate in writing, prior to 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of, in the case of the conversion of a Eurodollar Loan into a Base Rate Loan, and on the third Business Day prior to, in the case of the extension of a Eurodollar Loan as, or conversion of a Base Rate Loan into, a Eurodollar Loan, the date of the proposed extension or conversion, specifying the date of the proposed extension or conversion and the Loans to be so extended or converted, the types of Loans into which such Loans are to be converted. Each request for extension or conversion shall be irrevocable and shall constitute a representation and warranty by the Borrowers of the matters specified in subsections (b), (c), (d), (f) and (g) of Section 5.2. In the event the Borrowers fail to request extension or conversion of any Eurodollar Loan in accordance with this Section, or any such conversion or extension is not permitted or required by this Section, then such Eurodollar Loan shall be automatically converted into a Base Rate Loan at the end of the Interest Period applicable thereto. The Administrative Agent shall give each Lender notice as promptly as practicable of any such proposed extension or conversion affecting any Loan.

3.3 Prepayments.

(a) Voluntary Prepayments. The Borrowers shall have the right to prepay Loans (other than the Swingline Loans) in whole or in part from time to time; provided, however, that each partial prepayment of Loans shall be in a minimum principal amount of \$1,000,000 and integral multiples of \$1,000,000. Subject to the foregoing terms, amounts prepaid under this Section 3.3(a) shall be applied as the Borrowers may elect; provided that if the Borrowers fail to specify a voluntary prepayment then such prepayment shall be applied first to Revolving Loans that are Base Rate Loans and then to Eurodollar Loans in direct order of Interest Period maturities starting with the earliest maturity date. All prepayments under this Section 3.3(a) shall be subject to Section 3.12, but otherwise without premium or penalty.

(b) Mandatory Prepayments.

(i) Principal in Excess of Revolving Committed Amount; LOC Obligations in Excess of LOC Committed Amount. If at any time or for any reason, (A) the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall exceed the Revolving Committed Amount, (B) the aggregate amount of outstanding Swingline Loans exceeds the Swingline Committed Amount or (C) the aggregate amount of LOC Obligations outstanding exceeds the LOC Committed Amount, the Borrowers shall immediately make payment on the Loans and/or to a cash collateral account in respect of the LOC Obligations, in an amount sufficient to eliminate such excess.

(ii) Application of Mandatory Prepayments. All amounts required to be paid pursuant to this Section 3.3(b) (i) shall be applied first, to Revolving Loans (and after all Revolving Loans have been paid), second, to Swingline Loans and third, to a cash collateral account in respect of LOC Obligations. Within the parameters of the applications set forth above, prepayments shall be applied first to Base Rate Loans and then to Eurodollar Loans in direct order of Interest Period maturities starting with the earliest maturity date. All prepayments under this Section 3.3(b) shall be subject to Section 3.12, but otherwise without premium or penalty, and shall be accompanied by interest on the principal amount prepaid through the date of prepayment.

(c) Prepayment Account. If the Borrowers are required to make a mandatory prepayment of Eurodollar Loans under Section 3.3(b), the Borrowers shall have the right, in lieu of making such prepayment in full, to deposit an amount equal to such mandatory prepayment with the Administrative Agent in a cash collateral account maintained (pursuant to documentation reasonably satisfactory to the Administrative Agent) by and in the sole dominion and control of the Administrative Agent. Any amounts so deposited shall be held by the Administrative Agent for the benefit of the Lenders as collateral for the prepayment of such Eurodollar Loans and shall be applied to the prepayment of the applicable Eurodollar Loans at the end of the current Interest Periods applicable thereto. At the request of the Principal Borrower, amounts so deposited shall be invested by the Administrative Agent in Cash Equivalents maturing prior to the date or dates on which it is anticipated that such amounts will be applied to prepay such Eurodollar Loans; any interest earned on such Cash Equivalents will be for the account of the Borrowers and the Borrowers will deposit with the Administrative Agent the amount of any loss on any such Cash Equivalents to the extent necessary in order that the amount of the prepayment to be made with the deposited amounts may not be reduced.

3.4 Termination, Reduction or Increase of Revolving Committed Amount.

(a) Voluntary Reductions. The Borrowers may from time to time permanently reduce or terminate the Revolving Committed Amount in whole or in part (in minimum aggregate amounts of \$5,000,000 or in integral multiples of \$1,000,000 in excess thereof (or, if less, the full remaining amount of the then applicable Revolving Committed Amount)) upon five Business Days' prior written notice to the Administrative Agent; provided, however, no such termination or reduction shall be made which would cause the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding to exceed the Revolving Committed Amount unless, concurrently with such termination or reduction, the Revolving Loans are repaid or payments are made to a cash collateral account as security for the LOC Obligations for the benefit of the Lenders, in each case in an amount sufficient to eliminate such excess. The Administrative Agent shall promptly notify each affected Lender of receipt by the Administrative Agent of any notice from the Borrowers pursuant to this Section 3.4(a).

(b) General. The Administrative Agent will promptly notify the Lenders of (i) any such notice of termination or reduction of the Revolving Committed Amount and (ii) any requested increase in the Revolving Committed Amount. Any reduction of the Revolving Committed Amount shall be applied to the Revolving Commitment of each Lender according to its Pro Rata Share. To the extent the Revolving Committed Amount is increased pursuant to clause (b) above, all Lenders (including both previously-existing and new Lenders) shall receive new Notes reflecting their respective Commitments and new Lenders shall, to the extent necessary to cause the outstanding principal amount of the Loans and other Credit Party Obligations allocable to each Lender to equal each such Lender's Pro Rata Share, fund Loans directly to the other Lenders, as directed by the Administrative Agent. The Credit Parties hereby agree to execute and deliver any new Notes required pursuant to this Section 3.4 to evidence the Loans made by the Lenders and acknowledge, consent and agree to the funding by any new Lenders of Loans pursuant to the previous sentence for the purpose of causing the outstanding principal amount of such Loans to equal each Lender's Pro Rata Share.

3.5 Fees.

(a) Facility Fee. In consideration of the Revolving Committed Amount being made available by the Lenders hereunder, the Borrowers agree to pay to the Administrative Agent for the pro rata benefit of the Lenders (based on each Lender's Commitment Percentage of the Revolving Committed Amount) a fee (the "Facility Fee") on the first business day of each calendar quarter of the Principal Borrower following the Closing Date (as well as on the Maturity Date) for the immediately preceding quarter (or portion thereof), beginning with the first of such dates to occur after the Closing Date. The Facility Fee shall be equal to (i) the sum of (A) the Applicable Percentage as of the last day of the calendar quarter for which such fee is being calculated (or, for payments due on the Maturity Date, the Applicable Percentage on the Business Day immediately preceding the Maturity Date), plus (B) the Facility Fee Modifier as of the date of calculation, multiplied by (ii) the maximum amount of the Revolving Committed Amount as of any day during the period for which such calculation is being performed. The Facility Fee shall commence to accrue on the Closing Date and shall continue to accrue through (but excluding) the date on which all of the Credit Party Obligations are fully satisfied. The Administrative Agent shall endeavor in the ordinary course of business to give notice to each Lender promptly upon its receipt of notice that a Facility Fee Modifier that is not equal to zero will be applied to the calculation of the Facility Fee.

(b) Letter of Credit Fees.

(i) Letter of Credit Fee. In consideration of the issuance of Letters of Credit hereunder, the Borrowers promise to pay to the Administrative Agent for the account of each Lender a fee (the "Letter of Credit Fee") on such Lender's Commitment Percentage of the average daily maximum amount available to be drawn under each such Letter of Credit computed for each day from the date of issuance to the date of expiration at a rate equal to the Applicable Percentage. The Letter of Credit Fee will be payable quarterly in arrears on the first Business Day of each March, June, September and December for the immediately preceding quarter (or a portion thereof) including the date of payment.

(ii) Issuing Lender Fees. In addition to the Letter of Credit Fee payable pursuant to clause (i) above and in addition to all other fees payable pursuant to the terms of this Agreement, the Borrowers promise, with respect to each Letter of Credit, to pay to the Issuing Lender without sharing by the other Lenders (i) a letter of credit fronting fee (payable upon issuance or extension of each Letter of Credit) equal to the greater of (A) of one-eighth of one percent (0.125%) on the maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit), and (B) \$1,500.00, and (ii) the customary charges from time to time of the Issuing Lender with respect to the issuance, amendment, transfer, administration, cancellation and conversion of, and drawings under, such Letters of Credit. Such fees shall be due and payable on demand, shall be fully earned when paid and shall not be refundable for any reason whatsoever. For purposes of this Section 3.5(b), each renewal of any Letter of Credit, including an auto-renewal of any Letter of Credit, shall be considered an issuance of a new Letter of Credit.

(c) Fee Letter. In addition to all other fees and expenses required to be paid by Borrowers hereunder, the Borrowers shall pay to the Administrative Agent and Arranger those fees reflected in the Fee Letter on or before the dates required therein.

3.6 Capital Adequacy.

If any Lender has determined, after the date hereof, that the adoption or the becoming effective of, or any change in, or any change by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof in the interpretation or administration of, any applicable law, rule or regulation regarding capital adequacy, or compliance by such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital or assets as a consequence of its commitments or obligations hereunder to a level below that which such Lender could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy), then, upon notice from such Lender to the Principal Borrower and delivery by such Lender of a statement setting forth the reduction in the rate of return experienced by such Lender and the amount necessary to compensate the Lender under this Section 3.6, the Borrowers shall be obligated to pay to such Lender such additional amount or amounts as will compensate such

Lender for such reduction. Each determination by any such Lender of amounts owing under this Section shall, absent manifest error, be conclusive and binding on the parties hereto.

3.7 Limitation on Eurodollar Loans; Payments Related to Reserves .

(a) If on or prior to the first day of any Interest Period for any Eurodollar Loan:

(i) the Administrative Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(ii) the Required Lenders determine (which determination shall be conclusive) and notify the Administrative Agent that the Eurodollar Rate will not adequately and fairly reflect the cost to the Lenders of funding Eurodollar Loans for such Interest Period; then the Administrative Agent shall give the Principal Borrower prompt notice thereof, and so long as such condition remains in effect, the Lenders shall be under no obligation to make additional Eurodollar Loans, continue Eurodollar Loans, or to convert Base Rate Loans into Eurodollar Loans and the Borrowers shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Loans, either prepay such Eurodollar Loans or convert such Eurodollar Loans into Base Rate Loans in accordance with the terms of this Credit Agreement.

(b) The Borrowers shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as “Eurocurrency liabilities”), additional interest on the unpaid principal amount of each Eurodollar Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least 15 days’ prior notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 15 days from receipt of such notice.

3.8 Illegality .

If any Lender reasonably determines that any Requirement of Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Loans, or to determine or charge interest rates based upon the Eurodollar Rate, then, on notice thereof by such Lender to the Borrowers through the Administrative Agent, any obligation of such Lender to make or continue Eurodollar Loans or to convert Base Rate Loans to Eurodollar Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrowers that the circumstances giving rise to such determination no longer exist (which notice a Lender shall give promptly upon such determination). Upon receipt of such notice, the Borrowers shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Loans. Upon any such prepayment or conversion, the Borrowers shall also pay accrued interest on the amount so prepaid or converted. Each Lender agrees to designate a different lending office for purposes of this Credit Agreement if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

3.9 Requirements of Law .

(a) If, after the date hereof, the adoption of any applicable law, rule, or regulation, or any change in any applicable law, rule, or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank, or comparable agency charged with the interpretation or administration

thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) of any such Governmental Authority, central bank, or comparable agency:

(i) shall subject such Lender to any tax, duty, or other charge with respect to any Eurodollar Loans, its Notes, or its obligation to make Eurodollar Loans, or change the basis of taxation of any amounts payable to such Lender under this Credit Agreement or its Notes in respect of any Eurodollar Loans (other than taxes imposed on the overall net income of such Lender by the jurisdiction in which such Lender has its principal office);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the reserve requirements utilized in the determination of the Adjusted Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender, including the Commitment of such Lender hereunder; or

(iii) shall impose on such Lender or on the United States market for certificates of deposit or the London interbank market any other condition affecting this Credit Agreement or its Notes or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender of making, converting into, continuing, or maintaining any Eurodollar Loans or to reduce any sum received or receivable by such Lender under this Credit Agreement or its Notes with respect to any Eurodollar Loans, then the Borrowers shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction. If any Lender requests compensation by the Borrowers under this Section 3.9(a), the Borrowers may, by notice to such Lender (with a copy to the Administrative Agent), suspend the obligation of such Lender to make or continue Eurodollar Loans, or to convert Base Rate Loans into Eurodollar Loans, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of Section 3.10 shall be applicable); provided that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) Each Lender shall promptly notify the Principal Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section 3.9 and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to it. Any Lender claiming compensation under this Section 3.9 shall furnish to the Principal Borrower and the Administrative Agent a statement setting forth the additional amount or amounts to be paid to it hereunder which shall, absent manifest error, be conclusive and binding on the parties hereto. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

3.10 Treatment of Affected Loans .

If the obligation of any Lender to make any Eurodollar Loan or to continue, or to convert Base Rate Loans into, Eurodollar Loans shall be suspended pursuant to Section 3.8 or 3.9 hereof, such Lender's Eurodollar Loans shall be automatically converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for such Eurodollar Loans (or, in the case of a conversion required by Section 3.8 hereof, on such earlier date as such Lender may specify to the Principal Borrower with a copy to the Administrative Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 3.8 or 3.9 hereof that gave rise to such conversion no longer exist:

(a) to the extent that such Lender's Eurodollar Loans have been so converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Eurodollar Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or continued by such Lender as Eurodollar Loans shall be made or continued instead as Base Rate Loans, and all Base Rate Loans of such Lender that would otherwise be converted into Eurodollar Loans shall remain as Base Rate Loans.

If such Lender gives notice to the Principal Borrower (with a copy to the Administrative Agent) that the circumstances specified in Section 3.8 or 3.9 hereof that gave rise to the conversion of such Lender's Eurodollar Loans pursuant to this Section 3.10 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Loans made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Loans, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding Eurodollar Loans and by such Lender are held pro rata (as to principal amounts, interest rate basis, and Interest Periods) in accordance with their respective Commitments.

3.11 Taxes .

(a) Any and all payments by the Borrowers to or for the account of any Lender or the Administrative Agent hereunder or under any other Credit Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender (or its Applicable Lending Office) or the Administrative Agent (as the case may be) is organized or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable under this Credit Agreement or any other Credit Document to any Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.11) such Lender or the Administrative Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions, (iii) the Borrowers shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) the Borrowers shall furnish to the Administrative Agent, at its address referred to in Section 11.1, the original or a certified copy of a receipt evidencing payment thereof.

(b) The Borrowers also agree to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Credit Agreement or any other Credit Document or from the execution or delivery of, or otherwise with respect to, this Credit Agreement or any other Credit Document (hereinafter referred to as "Other Taxes"). Further, if the Borrowers (or any of them) shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under any Credit Document to the Administrative Agent or any Lender, the Borrowers shall also pay to the Administrative Agent or to such Lender, as the case may be, at the time interest is paid, such additional amount that the Administrative Agent or such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that the Administrative Agent or such Lender would have received if such Taxes or Other Taxes had not been imposed.

(c) The Borrowers agree to indemnify each Lender and the Administrative Agent for (i) the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 3.11) paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto; (ii) any other amounts payable under Section 3.11(b) and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this subsection (c) shall be made within 30 days after the date the Lender or the Administrative Agent makes a demand therefor.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Credit Agreement in the case of each Lender listed on

the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by the Principal Borrower or the Administrative Agent (but only so long as such Lender remains lawfully able to do so), shall provide the Principal Borrower and the Administrative Agent with (i) Internal Revenue Service Form W-8ECI or W-8BEN, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Credit Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Credit Agreement or any of the other Credit Documents.

(e) For any period with respect to which a Lender has failed to provide the Principal Borrower and the Administrative Agent with the appropriate form pursuant to Section 3.11(d) (unless such failure is due to a change in treaty, law, or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 3.11(a) or 3.11(b) with respect to Taxes imposed by the United States; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Borrowers shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If the Borrowers are required to pay additional amounts to or for the account of any Lender pursuant to this Section 3.11, then such Lender will agree to use reasonable efforts to change the jurisdiction of its applicable lending office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

(g) Within thirty (30) days after the date of any payment of Taxes, the Borrowers shall furnish to the Administrative Agent the original or a certified copy of a receipt evidencing such payment.

(h) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 3.11 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

3.12 Compensation .

Upon the request of the Administrative Agent, the Borrowers shall pay to the Administrative Agent, for the pro rata benefit of the Lenders, such amount or amounts as shall be sufficient (in the reasonable opinion of the Administrative Agent) to compensate the Lenders for any loss, cost, or expense (including loss of anticipated profits) incurred by the Lenders as a result of:

(a) any payment, prepayment, or conversion of a Eurodollar Loan for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 9.2) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by the Borrowers for any reason (including, without limitation, the failure of any condition precedent specified in Section 5 to be satisfied) to borrow, convert, continue, or prepay a Eurodollar Loan on the date for such borrowing, conversion, continuation, or prepayment specified in the relevant notice of borrowing, prepayment, continuation, or conversion under this Credit Agreement.

With respect to Eurodollar Loans, such indemnification may include an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of the

applicable Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Eurodollar Loans provided for herein (excluding, however, the Applicable Percentage included therein, if any) over (b) the amount of interest (as reasonably determined by the Administrative Agent) which would have accrued to the Administrative Agent on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. The covenants of the Borrowers set forth in this Section 3.12 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

3.13 Pro Rata Treatment .

Except to the extent otherwise provided herein:

(a) Loans . Each Loan, each payment or (subject to the terms of Section 3.3) prepayment of principal of any Loan or reimbursement obligations arising from drawings under Letters of Credit, each payment of interest on the Loans or reimbursement obligations arising from drawings under Letters of Credit, each payment of Fees, each payment of the Letter of Credit Fee, each reduction of the Revolving Committed Amount and each conversion or extension of any Loan, shall be allocated pro rata among the Lenders in accordance with the respective principal amounts of their outstanding Loans and Participation Interests.

(b) Advances . No Lender shall be responsible for the failure or delay by any other Lender in its obligation to make its ratable share of a borrowing hereunder; provided, however , that the failure of any Lender to fulfill its obligations hereunder shall not relieve any other Lender of its obligations hereunder. Unless the Administrative Agent shall have been notified by any Lender prior to the date of any requested borrowing that such Lender does not intend to make available to the Administrative Agent its ratable share of such borrowing to be made on such date, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on the date of such borrowing, and the Administrative Agent in reliance upon such assumption, may (in its sole discretion but without any obligation to do so) make available to the Borrowers a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent, the Administrative Agent shall be able to recover such corresponding amount from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent will promptly notify the Principal Borrower, and the Borrowers shall immediately pay such corresponding amount to the Administrative Agent. The Administrative Agent shall also be entitled to recover from the Lender or the Borrowers, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to the Borrowers to the date such corresponding amount is recovered by the Administrative Agent at a per annum rate equal to (i) from the Borrowers at the applicable rate for the applicable borrowing pursuant to the Notice of Borrowing and (ii) from a Lender at the Federal Funds Rate.

3.14 Sharing of Payments .

The Lenders agree among themselves that, in the event that any Lender shall obtain payment in respect of any Loan, LOC Obligations or any other obligation owing to such Lender under this Credit Agreement through the exercise of a right of setoff, banker's lien or counterclaim, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, in excess of its Pro Rata Share of such payment as provided for in this Credit Agreement, such Lender shall promptly purchase from the other Lenders a Participation Interest in such Loans, LOC Obligations and other obligations in such amounts, and make such other adjustments from time to time, as shall be equitable to the end that all Lenders share such payment in accordance with their respective ratable shares as provided for in this Credit Agreement. The Lenders further agree among themselves that if payment to a Lender obtained by such Lender through the exercise of a right of setoff, banker's lien, counterclaim or other event as aforesaid shall be rescinded or must otherwise be restored, each Lender which shall have shared the benefit of such payment shall, by repurchase of a Participation Interest theretofore sold, return its share of that benefit (together with its share of any accrued interest payable with respect thereto) to each Lender whose payment shall have been rescinded or otherwise restored. The Borrowers agree that any Lender so purchasing such a Participation Interest may, to the fullest extent permitted by law, exercise all rights of payment, including setoff, banker's lien or counterclaim, with respect to such Participation Interest as fully as if such Lender were a holder of such Loan,

LOC Obligations or other obligation in the amount of such Participation Interest. Except as otherwise expressly provided in this Credit Agreement, if any Lender or the Administrative Agent shall fail to remit to the Administrative Agent or any other Lender an amount payable by such Lender or the Administrative Agent to the Administrative Agent or such other Lender pursuant to this Credit Agreement on the date when such amount is due, such payments shall be made together with interest thereon for each date from the date such amount is due until the date such amount is paid to the Administrative Agent or such other Lender at a rate per annum equal to the Federal Funds Rate. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 3.14 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders under this Section 3.14 to share in the benefits of any recovery on such secured claim.

3.15 Payments, Computations, Etc .

(a) Except as otherwise specifically provided herein, all payments hereunder shall be made to the Administrative Agent in Dollars in immediately available funds, without setoff, deduction, counterclaim or withholding of any kind, at the Administrative Agent's office specified in Schedule 2.1(a) not later than 12:00 Noon (Charlotte, North Carolina time) on the date when due. Payments received after such time shall be deemed to have been received on the next succeeding Business Day. The Administrative Agent may (but shall not be obligated to) debit the amount of any such payment which is not made by such time to any ordinary deposit account of any of the Borrowers maintained with the Administrative Agent (with notice to the Principal Borrower). The Borrowers (or any one of them) shall, at the time it makes any payment under this Credit Agreement, specify to the Administrative Agent the Loans, LOC Obligations, Fees, interest or other amounts payable by the Borrowers hereunder to which such payment is to be applied (and in the event that it fails so to specify, or if such application would be inconsistent with the terms hereof, the Administrative Agent shall distribute such payment to the Lenders in such manner as the Administrative Agent may determine to be appropriate in respect of obligations owing by the Borrowers hereunder, subject to the terms of Section 3.13(a)). The Administrative Agent will distribute such payments to such Lenders, if any such payment is received prior to 12:00 Noon (Charlotte, North Carolina time) on a Business Day in like funds as received prior to the end of such Business Day and otherwise the Administrative Agent will distribute such payment to such Lenders on the next succeeding Business Day. Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day (subject to accrual of interest and for the period of such extension), except that in the case of Eurodollar Loans, if the extension would cause the payment to be made in the next following calendar month, then such payment shall instead be made on the next preceding Business Day. Except as expressly provided otherwise herein, all computations of interest and fees shall be made on the basis of actual number of days elapsed over a year of 360 days, except with respect to computation of interest on Base Rate Loans which (unless the Base Rate is determined by reference to the Federal Funds Rate) shall be calculated based on a year of 365 or 366 days, as appropriate. Interest shall accrue from and include the date of borrowing, but exclude the date of payment. If the Administrative Agent fails to distribute such payment to such Lenders on the day required by this Section 3.15, the Administrative Agent shall pay to such Lenders interest on the undistributed amount from and including the day such amount was required to be distributed to but excluding the date such amount is distributed at a per annum rate equal to the Federal Funds Rate.

(b) Allocation of Payments After Event of Default . Notwithstanding any other provisions of this Credit Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Administrative Agent or any Lender on account of the Credit Party Obligations or any other amounts outstanding under any of the Credit Documents shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees actually incurred) of the Administrative Agent in connection with enforcing the rights of the Lenders under the Credit Documents;

SECOND, to payment of any fees owed to the Administrative Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees actually incurred) of each of the Lenders in connection with enforcing its rights under the Credit Documents or otherwise with respect to the Credit Party Obligations owing to such Lender;

FOURTH, to the payment of all of the Credit Party Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Credit Party Obligations (including the payment or cash collateralization of the outstanding LOC Obligations);

SIXTH, to all other Credit Party Obligations and other obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive an amount equal to its Pro Rata Share (based on the proportion that the then outstanding Loans and LOC Obligations held by such Lender bears to the aggregate then outstanding Loans and LOC Obligations) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Administrative Agent in a cash collateral account and applied (A) first, to reimburse the Issuing Lender from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 3.15(b).

3.16 Evidence of Debt.

Each Lender shall maintain an account or accounts evidencing each Loan made by such Lender to the Borrowers from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Credit Agreement. Each Lender will make reasonable efforts to maintain the accuracy of its account or accounts and to promptly update its account or accounts from time to time, as necessary.

3.17 Survival.

All of the Borrowers' obligations under Sections 3.5, 3.6, 3.9, 3.11, 3.12 and 3.15 with respect to events or conditions occurring or existing at or prior to the termination of the Revolving Committed Amount and repayment of all other Credit Party Obligations hereunder, shall survive such termination and repayment.

SECTION 4

GUARANTY

4.1 The Guarantee.

Each of the Guarantors hereby jointly and severally guarantees to each Lender, each Affiliate of a Lender that enters into a Hedging Agreement, and the Administrative Agent, as hereinafter provided, the prompt payment of the Credit Party Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise) strictly in accordance with the terms thereof. The Guarantors hereby further agree that if any of the Credit Party Obligations are not paid in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise), the Guarantors will, jointly and severally, promptly pay the same, without any demand or notice

whatsoever, and that in the case of any extension of time of payment or renewal of any of the Credit Party Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

Notwithstanding any provision to the contrary contained herein or in any other of the Credit Documents or Hedging Agreements, the obligations of each Guarantor hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the Bankruptcy Code or any comparable provisions of any applicable state law.

4.2 Obligations Unconditional.

The obligations of the Guarantors under Section 4.1 are joint and several, absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of any of the Credit Documents or Hedging Agreements, or any other agreement or instrument referred to therein, or any substitution, release, impairment or exchange of any other guarantee of or security for any of the Credit Party Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 4.2 that the obligations of the Guarantors hereunder shall be absolute and unconditional under any and all circumstances. Each Guarantor agrees that such Guarantor shall have no right of subrogation, indemnity, reimbursement or contribution against any of the Borrowers or any other Guarantor of the Credit Party Obligations for amounts paid under this Section 4 until such time as the Lenders (and any Affiliates of Lenders entering into Hedging Agreements) have been paid in full, all Commitments under this Credit Agreement have been terminated and no Person or Governmental Authority shall have any right to request any return or reimbursement of funds from the Lenders in connection with monies received under the Credit Documents or Hedging Agreements. Without limiting the generality of the foregoing, it is agreed that, to the fullest extent permitted by law, the occurrence of any one or more of the following shall not alter or impair the liability of any Guarantor hereunder which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to any Guarantor, the time for any performance of or compliance with any of the Credit Party Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions of any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be done or omitted;

(c) the maturity of any of the Credit Party Obligations shall be accelerated, or any of the Credit Party Obligations shall be modified, supplemented or amended in any respect, or any right under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be waived or any other guarantee of any of the Credit Party Obligations or any security therefor shall be released, impaired or exchanged in whole or in part or otherwise dealt with;

(d) any Lien granted to, or in favor of, the Administrative Agent or any Lender or Lenders as security for any of the Credit Party Obligations shall fail to attach or be perfected; or

(e) any of the Credit Party Obligations shall be determined to be void or voidable (including, without limitation, for the benefit of any creditor of any Guarantor) or shall be subordinated to the claims of any Person (including, without limitation, any creditor of any Guarantor).

With respect to its obligations hereunder, each Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against any Person under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements, or against any other Person under any other guarantee of, or security for, any of the Credit Party Obligations.

4.3 Reinstatement .

The obligations of the Guarantors under this Section 4 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any Person in respect of the Credit Party Obligations is rescinded or must be otherwise restored by any holder of any of the Credit Party Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and each Guarantor agrees that it will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees and expenses of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

4.4 Certain Additional Waivers .

Without limiting the generality of the provisions of this Section 4, each Guarantor hereby specifically waives the benefits of N.C. Gen. Stat. §§ 26-7 through 26-9, inclusive, to the extent applicable. Each Guarantor further agrees that such Guarantor shall have no right of recourse to security for the Credit Party Obligations, except through the exercise of the rights of subrogation pursuant to Section 4.2 and through the exercise of rights of contribution pursuant to Section 4.6.

4.5 Remedies .

The Guarantors agree that, to the fullest extent permitted by law, as between the Guarantors, on the one hand, and the Administrative Agent and the Lenders, on the other hand, the Credit Party Obligations may be declared to be forthwith due and payable as provided in Section 9.2 (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 9.2) for purposes of Section 4.1 notwithstanding any stay, injunction or other prohibition preventing such declaration (or preventing the Credit Party Obligations from becoming automatically due and payable) as against any other Person and that, in the event of such declaration (or the Credit Party Obligations being deemed to have become automatically due and payable), the Credit Party Obligations (whether or not due and payable by any other Person) shall forthwith become due and payable by the Guarantors for purposes of Section 4.1.

4.6 Rights of Contribution .

The Guarantors and the Borrowers hereby agree as among themselves that, if any Guarantor shall make an Excess Payment (as defined below), such Guarantor shall have a right of contribution from each other Guarantor and each other Borrower in an amount equal to such other Guarantor's Contribution Share (as defined below) of such Excess Payment. The payment obligations of any Guarantor under this Section 4.6 shall be subordinate and subject in right of payment to the prior payment in full to the Administrative Agent and the Lenders of the Guaranteed Obligations, and none of the Guarantors shall exercise any right or remedy under this Section 4.6 against any other Guarantor or any Borrower until payment and satisfaction in full of all of any Guaranteed Obligations. For purposes of this Section 4.6, (a) "Guaranteed Obligations" shall mean any obligations arising under the other provisions of this Section 4; (b) "Excess Payment" shall mean the amount paid by any Guarantor in excess of its Guarantor Pro Rata Share of such Guaranteed Obligations; (c) "Guarantor Pro Rata Share" shall mean, for any Guarantor in respect of any payment of Guaranteed Obligations, the ratio (expressed as a percentage) as of the date of such payment of Guaranteed Obligations of (i) the amount by which the aggregate present fair salable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Guarantor (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder) to (ii) the amount by which the aggregate present fair salable value of all assets and other properties of the Borrowers and all of the Guarantors exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of the Borrowers and the Guarantors hereunder) of the Borrowers and all of the Guarantors; provided, however, that, for purposes of calculating the Guarantor Pro Rata Shares of the Guarantors in respect of any payment of Guaranteed Obligations, any Guarantor that became a Guarantor subsequent to the date of any such payment shall be deemed to have been a Guarantor on the date of such payment and the financial information for such Guarantor as of the date such Guarantor became a Guarantor shall be utilized for such Guarantor in connection with such payment; and (d) "Contribution Share" shall mean, for any Guarantor in respect of any Excess Payment made by any other Guarantor, the ratio (expressed as a percentage) as of the date of such Excess Payment of (i) the amount by which the aggregate present

fair salable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Guarantor (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder) to (ii) the amount by which the aggregate present fair salable value of all assets and other properties of the Borrowers and all of the Guarantors other than the maker of such Excess Payment exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of the Borrowers and the Guarantors hereunder) of the Borrowers and all of the Guarantors other than the maker of such Excess Payment; provided, however, that, for purposes of calculating the Contribution Shares of the Guarantors in respect of any Excess Payment, any Guarantor that became a Guarantor subsequent to the date of any such Excess Payment shall be deemed to have been a Guarantor on the date of such Excess Payment and the financial information for such Guarantor as of the date such Guarantor became a Guarantor shall be utilized for such Guarantor in connection with such Excess Payment. This Section 4.6 shall not be deemed to affect any right of subrogation, indemnity, reimbursement or contribution that any Guarantor may have under applicable law against any of the Borrowers in respect of any payment of Guaranteed Obligations. Notwithstanding the foregoing, all rights of contribution against any Guarantor shall terminate from and after such time, if ever, that such Guarantor shall be relieved of its obligations pursuant to Section 8.4.

4.7 Continuing Guarantee.

The guarantee in this Section 4 is a continuing guarantee, and shall apply to all Credit Party Obligations whenever arising.

SECTION 5

CONDITIONS

5.1 Closing Conditions.

The obligation of the Lenders to enter into this Credit Agreement and to make the initial Loans or the Issuing Lender to issue the initial Letter of Credit, whichever shall occur first, shall be subject to satisfaction of the following conditions (in form and substance acceptable to the Lenders):

(a) Executed Credit Documents. Receipt by the Administrative Agent of duly executed copies of: (i) this Amended and Restated Credit Agreement; (ii) the Notes; and (iii) all other Credit Documents, each in form and substance acceptable to the Lenders in their sole discretion.

(b) Corporate Documents. Receipt by the Administrative Agent of the following:

(i) Charter Documents. Copies of the articles or certificates of incorporation or other charter documents of each Credit Party, which copies shall be (A) in the case of each Borrower, certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation and certified by a secretary or assistant secretary of such Credit Party to be true and correct as of the Closing Date and (B) in the case of all other Credit Parties, certified by a secretary or assistant secretary of such Credit Party to be true and correct as of the Closing Date.

(ii) Bylaws. A copy of the bylaws of each Borrower certified by a secretary or assistant secretary of such Person to be true and correct as of the Closing Date and an officer's certificate from each of the other Credit Parties certifying that the bylaws of such Credit Party delivered pursuant to the terms of the 2000 Credit Facility have not changed (or, to the extent such bylaws have changed, certifying the changed document).

(iii) Resolutions. Copies of resolutions of the Board of Directors of each Credit Party approving and adopting the Credit Documents to which it is a party, the transactions contemplated therein and authorizing execution and delivery thereof, certified by a secretary or assistant secretary of such Credit Party to be true and correct and in force and effect as of the Closing Date.

(iv) Good Standing. Copies of certificates of good standing, existence or its equivalent with respect to each Credit Party certified as of a recent date by the appropriate Governmental Authorities of the state or other jurisdiction of incorporation and each other jurisdiction in which the failure to so qualify and be in good standing could reasonably be expected to have a Material Adverse Effect.

(v) Incumbency. An incumbency certificate of each Credit Party certified by a secretary or assistant secretary to be true and correct as of the Closing Date.

(c) Financial Statements. Receipt by the Administrative Agent and the Lenders of (i) the unaudited consolidated financial statements of the Consolidated Parties, including balance sheets and income and cash flow statements for the fiscal quarter ended March 31, 2003 and (ii) such other information relating to the Consolidated Parties as the Administrative Agent may reasonably require in connection with the structuring and syndication of credit facilities of the type described herein.

(d) Opinions of Counsel. The Administrative Agent shall have received an opinion, or opinions (which shall cover among other things, authority, legality, validity, binding effect and enforceability) reasonably satisfactory to the Administrative Agent addressed to the Administrative Agent and the Lenders, dated as of the Closing Date, from legal counsel to the Credit Parties.

(e) Material Adverse Effect. No material adverse change shall have occurred since December 31, 2002 in the condition (financial or otherwise), business, assets, operations, management or prospects of the Consolidated Parties taken as a whole.

(f) Litigation. There shall not exist any pending or threatened action, suit, investigation or proceeding against a Consolidated Party that could reasonably be expected to have a Material Adverse Effect.

(g) Officer's Certificates. The Administrative Agent shall have received a certificate or certificates executed by an authorized officer of the Principal Borrower as of the Closing Date stating that (A) each Consolidated Party is in compliance with all existing financial obligations, (B) all governmental, shareholder and third party consents and approvals necessary for the Credit Parties to enter into the Credit Documents and fully perform thereunder, if any, have been obtained, (C) no action, suit, investigation or proceeding is pending or threatened in any court or before any arbitrator or governmental instrumentality that purports to affect any Consolidated Party or any transaction contemplated by the Credit Documents, if such action, suit, investigation or proceeding could reasonably be expected to have a Material Adverse Effect, and (D) immediately after giving effect to this Credit Agreement, the other Credit Documents and all the transactions contemplated therein to occur on such date, (1) each of the Credit Parties is Solvent, (2) no Default or Event of Default exists, (3) all representations and warranties contained herein and in the other Credit Documents are true and correct in all material respects, and (4) the Credit Parties are in compliance with each of the financial covenants set forth in Section 7.11.

(h) Attorney Costs. Unless waived by the Administrative Agent, the Borrowers shall have paid all Attorney Costs of the Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

(i) Solvency. The Administrative Agent shall have received a certificate executed by the chief financial officer of the Borrower as of the Closing Date, in form and substance satisfactory to the Administrative Agent, regarding the Solvency of each of the Credit Parties on a consolidated basis.

(j) Fees and Expenses. Payment by the Credit Parties of all other fees and expenses owed by them to the Lenders and the Administrative Agent.

(k) Insurance Certificates. Receipt by the Administrative Agent of an insurance certificate evidencing the insurance in effect with respect to the Properties as of the Closing Date.

(l) Other. Receipt by the Lenders of such other documents, instruments, agreements or information as reasonably requested by any Lender, including, but not limited to, information regarding litigation, tax, accounting, labor, insurance, pension liabilities (actual or contingent), real estate leases, material contracts, debt agreements, property ownership and contingent liabilities of the Consolidated Parties.

5.2 Conditions to all Extensions of Credit.

The obligations of each Lender to make, convert or extend any Loan and of the Issuing Lender to issue or extend any Letter of Credit (including the initial Loans and the initial Letter of Credit) are subject to satisfaction of the following conditions in addition to satisfaction on the Closing Date of the conditions set forth in Section 5.1:

(a) The Borrowers shall have delivered (i) in the case of any Revolving Loan, an appropriate Notice of Borrowing or Notice of Extension/Conversion or (ii) in the case of any Letter of Credit, the Issuing Lender shall have received an appropriate request for issuance in accordance with the provisions of Section 2.3(b);

(b) The representations and warranties set forth in Section 6 shall be, subject to the limitations set forth therein, true and correct in all material respects as of such date (except for those which expressly relate to an earlier date);

(c) There shall not have been commenced against any Credit Party an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its property or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded;

(d) No Default or Event of Default shall exist and be continuing either prior to or after giving effect thereto;

(e) Concurrent with the delivery of the appropriate notice required pursuant to Section 5.2(a) above, the Principal Borrower shall have delivered a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit 7.1(c), (i) demonstrating compliance with the financial covenants contained in Section 7.11(a) and Section 7.11(b) by calculation thereof after giving effect to the making of the requested Loan (and the application of the proceeds thereof) or to the issuance of the requested Letter of Credit, as the case may be, and (ii) stating that no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto.

(f) No development or event which has had or could reasonably be expected to have a Material Adverse Effect shall have occurred since December 31, 2002; and

(g) Immediately after giving effect to the making of such Loan (and the application of the proceeds thereof) or to the issuance of such Letter of Credit, as the case may be, (i) the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall not exceed the Revolving Committed Amount, and (ii) the LOC Obligations shall not exceed the LOC Committed Amount.

The delivery of each Notice of Borrowing, each Notice of Extension/Conversion and each request for a Letter of Credit pursuant to Section 2.3 (b) shall constitute a representation and warranty by the Borrowers of the correctness of the matters specified in subsections (b), (c), (d), (f) and (g) above.

SECTION 6

REPRESENTATIONS AND WARRANTIES

The Credit Parties hereby represent to the Administrative Agent and each Lender that:

6.1 Financial Condition .

The financial statements delivered to the Lenders pursuant to Section 5.1(c) and Section 7.1(a) and (b): (a) have been prepared in accordance with GAAP and (b) present fairly the consolidated financial condition, results of operations and cash flows of the Consolidated Parties as of such date and for such periods. Since December 31, 2002 there has been no sale, transfer or other disposition by any Consolidated Party of any material part of the business or property of any Consolidated Party and no purchase or other acquisition by any of them of any business or property (including any capital stock of any other Person) material in relation to the financial condition of any Consolidated Party in each case, which, is not (i) reflected in the most recent financial statements delivered to the Lenders pursuant to Section 7.1 or in the notes thereto or (ii) otherwise communicated to the Administrative Agent.

6.2 No Change; Dividends .

Since December 31, 2002, (a) there has been no development or event relating to or affecting a Consolidated Party which has had or could reasonably be expected to have a Material Adverse Effect and (b) except as otherwise permitted under this Credit Agreement, no dividends or other distributions have been declared, paid or made upon the Capital Stock in a Consolidated Party nor has any of the Capital Stock in a Consolidated Party been redeemed, retired, purchased or otherwise acquired for value by such Person other than in connection with the redemption of the Capital Stock of Highwoods Realty pursuant to the terms of the Highwoods Realty Limited Partnership Agreement.

6.3 Organization; Existence; Compliance with Law .

Each of the Consolidated Parties (a) is duly organized, validly existing and is in good standing under the laws of the jurisdiction of its incorporation or organization, (b) has the corporate or other necessary power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, and (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, other than in such jurisdictions where the failure to be so qualified and in good standing could not reasonably be expected to have a Material Adverse Effect.

6.4 Power; Authorization; Enforceable Obligations .

Each of the Credit Parties has the corporate or other necessary power and authority, and the legal right, to make, deliver and perform the Credit Documents to which it is a party, and in the case of the Borrowers, to obtain extensions of credit hereunder, and has taken all necessary corporate action to authorize the borrowings and other extensions of credit on the terms and conditions of this Credit Agreement and to authorize the execution, delivery and performance of the Credit Documents to which it is a party. No consent or authorization of, filing with, notice to or other similar act by or in respect of, any Governmental Authority or any other Person is required to be obtained or made by or on behalf of any Credit Party in connection with the borrowings or other extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of the Credit Documents to which such Credit Party is a party other than those which have been obtained or made. This Credit Agreement has been, and each other Credit Document to which any Credit Party is a party will be, duly executed and delivered on behalf of the Credit Parties. This Credit Agreement constitutes, and each other Credit Document to which any Credit Party is a party when executed and delivered will constitute, a legal, valid and binding obligation of such Credit Party enforceable against such party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.5 No Conflicts.

Neither the execution and delivery of the Credit Documents, nor the consummation of the transactions contemplated therein, nor the performance of and compliance with the terms and provisions thereof by such Credit Party will (a) violate or conflict with any provision of its articles or certificate of incorporation or bylaws or other organizational or governing documents of such Person, (b) violate, contravene or materially conflict with any Requirement of Law or any other law, regulation (including, without limitation, Regulation U or Regulation X), order, writ, judgment, injunction, decree or permit applicable to it, (c) violate, contravene or conflict with contractual provisions of, or cause an event of default under, any indenture, loan agreement, mortgage, deed of trust, contract or other agreement or instrument to which it is a party or by which it may be bound, the violation of which could reasonably be expected to have a Material Adverse Effect, or (d) result in or require the creation of any Lien (other than those contemplated in or created in connection with the Credit Documents) upon or with respect to its properties.

6.6 No Default.

No Consolidated Party is in default in any respect under any contract, lease, loan agreement, indenture, mortgage, security agreement or other agreement or obligation to which it is a party or by which any of its properties is bound which default could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred or exists except as previously disclosed in writing to the Lenders.

6.7 Ownership.

Each Consolidated Party is the owner of, and has good and marketable title to, all of its respective assets and none of such assets is subject to any Lien other than Liens permitted hereunder.

6.8 Indebtedness.

Except as otherwise permitted under Section 8.1, the Consolidated Parties have no Indebtedness.

6.9 Litigation.

There are no actions, suits or legal, equitable, arbitration or administrative proceedings, pending or, to the knowledge of any Credit Party, threatened against any Consolidated Party which could reasonably be expected to have a Material Adverse Effect.

6.10 Taxes.

Each Consolidated Party has filed, or caused to be filed, all tax returns (federal, state, local and foreign) required to be filed and paid (a) all amounts of taxes shown thereon to be due (including interest and penalties) and (b) all other taxes, fees, assessments and other governmental charges (including mortgage recording taxes, documentary stamp taxes and intangibles taxes) owing by it, except for such taxes (i) which are not yet delinquent, (ii) the nonpayment of which is not reasonably likely to result in a Material Adverse Effect (provided that failure to pay income or ad valorem real estate taxes shall be deemed, for purposes of this Section 6.10, to be likely to have a Material Adverse Effect) or (iii) that are being contested in good faith and by proper proceedings, and against which adequate reserves are being maintained in accordance with GAAP. No Credit Party is aware as of the Closing Date of any proposed tax assessments against it or any other Consolidated Party.

6.11 Compliance with Laws.

Each Consolidated Party is in compliance with all Requirements of Law and all other laws, rules, regulations, orders and decrees applicable to it, or to its properties, unless such failure to comply could not reasonably be expected to have a Material Adverse Effect and each Consolidated Party is current with all material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in full compliance in all material respects with all applicable rules and regulations of such commissions.

6.12 ERISA.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Credit Parties, nothing has occurred which would prevent, or cause the loss of, such qualification. Each Credit Party and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Credit Parties, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No outstanding liability exists as the result of an ERISA Event and no ERISA Event is reasonably expected to occur in the future; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) no Credit Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any unsatisfied liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) no Credit Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any unsatisfied liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such unsatisfied liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) no Credit Party nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

6.13 Subsidiaries.

Set forth on Schedule 6.13 is a complete and accurate list of all Subsidiaries of each Consolidated Party. Information on Schedule 6.13 includes (a) jurisdiction of incorporation or organization and (b) with respect to any Subsidiary that is not a Wholly Owned Subsidiary, the number of shares of each class of Capital Stock outstanding, the number and percentage of outstanding shares of each class owned (directly or indirectly) by such Subsidiary, and the number and effect, if exercised, of all outstanding options, warrants, rights of conversion or purchase and all other similar rights with respect thereto. The outstanding Capital Stock of all such Subsidiaries is validly issued, fully paid and non-assessable and is owned by each such Consolidated Party, directly or indirectly, free and clear of all Liens (other than those arising under or contemplated in connection with the Credit Documents). Other than as set forth in Schedule 6.13, no Subsidiary that is not a Wholly Owned Subsidiary has outstanding any securities convertible into or exchangeable for its Capital Stock nor does any such Person have outstanding any rights to subscribe for or to purchase or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to its Capital Stock. Schedule 6.13 may be updated from time to time by the Borrowers by giving written notice thereof to the Administrative Agent.

6.14 Governmental Regulations, Etc.

(a) No part of the Letters of Credit or proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U, or for the purpose of purchasing or carrying or trading in any securities. If requested by any Lender or the Administrative Agent, the Borrowers will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U. No indebtedness being reduced or retired out of the proceeds of the Loans was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U or any "margin security" within the meaning of Regulation T. "Margin stock" within the meaning of Regulation U does not constitute more than 25% of the value of the consolidated assets of the Consolidated Parties. None of the transactions contemplated by this Credit Agreement (including, without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or regulations issued pursuant thereto, or Regulation T, U or X.

(b) No Consolidated Party is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, no Consolidated Party is (i) an “investment company” registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii) a “holding company”, or a “subsidiary company” of a “holding company”, or an “affiliate” of a “holding company” or of a “subsidiary” of a “holding company”, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(c) Except as disclosed to the Administrative Agent in writing, no director, executive officer or principal shareholder of any Consolidated Party is an “insider” as such term is defined in Regulation O such that any Lender would be in violation of Regulation O with respect to any Loan hereunder.

(d) Each Consolidated Party has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, accreditations, easements, rights of way and other rights, consents and approvals which are necessary for the ownership of its respective property and to the conduct of its respective businesses as presently conducted, other than those which the failure to obtain and hold is not reasonably likely to result in a Material Adverse Effect.

6.15 Purpose of Loans and Letters of Credit.

The proceeds of the Loans hereunder shall be used solely by the Borrowers (a) to finance the acquisition of (i) for lease office and industrial properties, (ii) subject to Section 7.11(j), properties other than for lease office and industrial properties, (iii) Persons whose primary business is the ownership, leasing and management of for lease office and industrial properties and (iv) subject to Section 7.11(j), Persons whose primary business is the ownership, leasing and management of properties other than for lease office and industrial properties, (b) to finance the development of (i) new office and industrial properties and (ii) subject to Section 7.11(j), to finance the development of properties other than for lease office and industrial properties, and (c) for working capital and other general corporate purposes. The Letters of Credit shall be used only for or in connection with appeal bonds, reimbursement obligations arising in connection with surety and reclamation bonds, reinsurance, domestic or international trade transactions and obligations not otherwise aforementioned relating to transactions entered into by the applicable account party in the ordinary course of business. In addition, Letters of Credit may be used to provide credit enhancement for any Indebtedness of a Credit Party.

6.16 Environmental Matters.

(a) There is no violation of any Environmental Law with respect to the facilities and properties owned, leased or operated by the Consolidated Parties or the businesses operated by the Consolidated Parties which would, in the aggregate, result in anticipated clean-up costs in excess of \$25 million.

(b) No Consolidated Party has been notified of any material action, suit, proceeding or investigation which calls into question compliance by any Consolidated Party with any Environmental Laws or which seeks to suspend, revoke or terminate any license, permit or approval necessary for the generation, handling, storage, treatment or disposal of any Hazardous Material in any material respect of the Consolidated Parties taken as a whole.

6.17 Intellectual Property.

Each Consolidated Party owns, or has the legal right to use, all trademarks, tradenames, copyrights, technology, know-how and processes (the “Intellectual Property”) necessary for each of them to conduct its business as currently conducted except for those the failure to own or have such legal right to use could not have a Material Adverse Effect.

6.18 Solvency.

Each Credit Party is and, after consummation of the transactions contemplated by this Credit Agreement, will be Solvent.

6.19 Investments .

All Investments of each Consolidated Party are Permitted Investments.

6.20 Disclosure .

Neither this Credit Agreement nor any financial statements delivered to the Lenders nor any other document, certificate or statement furnished to the Lenders by or on behalf of any Consolidated Party in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading.

6.21 No Burdensome Restrictions .

No Consolidated Party is a party to any agreement or instrument or subject to any other obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.22 Labor Matters .

There are no collective bargaining agreements or Multiemployer Plans covering the employees of a Consolidated Party as of the Closing Date and none of the Consolidated Parties has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years.

6.23 Tax Shelter Regulations .

The Borrowers do not intend to treat the Loans and Letters of Credit and the transactions related thereto as being “reportable transactions” (within the meaning of Treasury Regulation Section 1.6011-4). In the event any Borrower determines to take any action inconsistent with such intention, it will promptly notify the Administrative Agent thereof. If any Borrower so notifies the Administrative Agent, the Borrowers acknowledge that one or more of the Lenders may treat its Loans and/or its interest in Swingline Loans and/or Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and such Lender or Lenders, as applicable, will maintain the lists and other records required by such Treasury Regulation.

6.24 Principal Offices .

Set forth on Schedule 6.24 is the chief executive office and principal place of business of each Credit Party. Schedule 6.24 may be updated from time to time by the Borrowers by giving written notice thereof to the Administrative Agent.

SECTION 7**AFFIRMATIVE COVENANTS**

Each Credit Party hereby covenants and agrees that so long as this Credit Agreement is in effect or any amounts payable hereunder or under any other Credit Document shall remain outstanding, and until all of the Commitments hereunder shall have terminated:

7.1 Information Covenants .

The Principal Borrower will furnish, or cause to be furnished, to the Administrative Agent for distribution to the Lenders:

(a) Annual Financial Statements . As soon as available, and in any event within 120 days after the close of each fiscal year of the Consolidated Parties, (i) a consolidated balance sheet and income statement of the Consolidated Parties, as of the end of such fiscal year, together with related consolidated statements of

operations and retained earnings and of cash flows for such fiscal year, setting forth in comparative form consolidated figures for the preceding fiscal year, all such financial information described above to be in reasonable form and detail and audited by independent certified public accountants of recognized national standing reasonably acceptable to the Administrative Agent and whose opinion shall be to the effect that such financial statements have been prepared in accordance with GAAP (except for changes with which such accountants concur) and shall not be limited as to the scope of the audit or qualified as to the status of the Consolidated Parties as a going concern, (ii) a schedule of the Properties summarizing total revenues, expenses, net operating income, Adjusted NOI, Annualized Adjusted NOI and occupancy rates as of the last day of the applicable fiscal year and (iii) a projection of Capital Expenditures for the next fiscal year for each Property of a Consolidated Party.

(b) Quarterly Financial Statements. As soon as available, and in any event within 45 days after the close of each fiscal quarter of the Consolidated Parties (other than the fourth fiscal quarter, in which case 120 days after the end thereof) (i) a consolidated balance sheet and income statement of the Consolidated Parties, as of the end of such fiscal quarter, together with related consolidated statements of operations and retained earnings and of cash flows for such fiscal quarter in each case setting forth in comparative form consolidated figures for the corresponding period of the preceding fiscal year, all such financial information described above to be in reasonable form and detail and reasonably acceptable to the Administrative Agent, and accompanied by a certificate of the chief financial officer of the Principal Borrower to the effect that such quarterly financial statements fairly present in all material respects the financial condition of the Consolidated Parties and have been prepared in accordance with GAAP, subject to changes resulting from audit and normal year-end audit adjustments and the omission of footnotes, (ii) a schedule of the Properties summarizing total revenues, expenses, net operating income, Adjusted NOI, Annualized Adjusted NOI and occupancy rates as of the last day of the applicable quarter, (iii) a listing of all Properties Under Development showing the total capital obligation of the Credit Parties with respect to each such Property Under Development, funds expended to date in connection with each such Property Under Development and indicating whether each such Property Under Development qualifies as a Build To Suit Property, (iv) a projection of Asset Dispositions for the next fiscal quarter for each Consolidated Party, (v) a summary of land purchases by the Credit Parties for the prior quarter and (vi) a summary of all Net Cash Proceeds received by the Credit Parties during such fiscal quarter, together with a verification of the amount of such Net Cash Proceeds, in each case in form and detail satisfactory to the Administrative Agent.

(c) Officer's Certificate. At the time of delivery of the financial statements provided for in Sections 7.1(a) and 7.1(b) above, a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit 7.1(c), (i) demonstrating compliance, as of the end of each such fiscal period, with (A) the financial covenants contained in Section 7.11, (B) the limitation on Investments contained in Section 7.11(j),(m) and (n), and (C) the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party, in each case by detailed calculation thereof (which calculation shall be in form satisfactory to the Agent and which shall include, among other things, an explanation of the methodology used in such calculation and a breakdown of the components of such calculation), (ii) stating that the Credit Parties were in compliance with each of the covenants set forth in Sections 7 and 8 of the Credit Agreement at all times during such fiscal period and (iii) stating that, as of the end of each such fiscal period, no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto. Prior to increasing the Applicable Percentage hereunder pursuant to the last sentence of the definition thereof, the Administrative Agent shall provide the Principal Borrower with notice that it has not received a certificate due pursuant to this Section as of the applicable due date.

(d) Financial Projections. Commencing with the fiscal quarter ending as of June 30, 2003, as soon as available, and in any event within 45 days after the end of every other fiscal quarter thereafter (or, in the case of a fiscal quarter in which such reporting is required and which coincides with the end of a fiscal year, 120 days), (i) a pro forma balance sheet and income statement of the Consolidated Parties for each of the eight succeeding fiscal quarters, together with related pro forma consolidated statements of operations and of cash sources and uses for each such succeeding fiscal quarter and (ii) a certificate of the chief financial officer of the Principal Borrower demonstrating compliance on a pro forma basis for each of the eight succeeding fiscal quarters with (A) the financial covenants contained in Section 7.11, (B) the limitation on Investments contained

in Section 7.11(j), (m) and (n), and (C) the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party, in each case by detailed calculation thereof (which calculations shall be in form satisfactory to the Agent and which shall include, among other things, an explanation of the methodology used in such calculations and a breakdown of the components of such calculations).

(e) Compliance With Certain Provisions of the Credit Agreement. Within 120 days after the end of each fiscal year of the Principal Borrower, a certificate of the chief financial officer of the Principal Borrower containing information regarding the amount of all Equity Issuances that were made during the prior fiscal year.

(f) Accountant's Certificate. Within the period for delivery of the annual financial statements provided in Section 7.1(a), a certificate of the accountants conducting the annual audit stating that they have reviewed this Credit Agreement and stating further whether, in the course of their audit, they have become aware of any Default or Event of Default and, if any such Default or Event of Default exists, specifying the nature and extent thereof.

(g) Auditor's Reports. Promptly upon receipt thereof, a copy of any other report or "management letter" submitted by independent accountants to any Consolidated Party in connection with any annual, interim or special audit of the books of such Person.

(h) Reports. Promptly, (i)(A) copies of any 10-K, 10-Q and S-4 filed (without exhibits unless such exhibits are requested by the Administrative Agent), (B) all other registration statements and prospectuses sent to, or notices received from, the Securities and Exchange Commission, or any successor agency, as may be requested by the Administrative Agent, (C) all materials sent to or received from S&P, Moodys, any Third Rating Agency or any other nationally recognized rating agency and (D) copies of all proxy statements as any Consolidated Party shall send to its shareholders or partners generally and (ii) upon the request of the Administrative Agent, all reports and written information to and from the United States Environmental Protection Agency, or any state or local agency responsible for environmental matters, the United States Occupational Health and Safety Administration, or any state or local agency responsible for health and safety matters, or any successor agencies or authorities concerning environmental, health or safety matters.

(i) Notices. Upon obtaining knowledge thereof, such Credit Party will give written notice to the Administrative Agent immediately of (i) the occurrence of an event or condition consisting of a Default or Event of Default, specifying the nature and existence thereof and what action the Credit Parties propose to take with respect thereto, and (ii) the occurrence of any of the following with respect to any Consolidated Party (A) the pendency or commencement of any litigation, arbitral or governmental proceeding against such Person which if adversely determined could reasonably be expected to have a Material Adverse Effect or (B) the institution of any proceedings against such Person with respect to, or the receipt of notice by such Person of potential liability or responsibility for violation, or alleged violation of any federal, state or local law, rule or regulation, including but not limited to, Environmental Laws, the violation of which could reasonably be expected to have a Material Adverse Effect.

(j) ERISA. Upon obtaining knowledge thereof, any Credit Party will give written notice to the Administrative Agent promptly (and in any event within five business days) of: (i) of any event or condition, including, but not limited to, any Reportable Event, that constitutes, or might reasonably lead to, an ERISA Event; (ii) with respect to any Multiemployer Plan, the receipt of notice as prescribed in ERISA or otherwise of any withdrawal liability assessed against the Borrowers or any of their ERISA Affiliates, or of a determination that any Multiemployer Plan is in reorganization or insolvent (both within the meaning of Title IV of ERISA); (iii) the failure to make full payment on or before the due date (including extensions) thereof of all amounts which any Consolidated Party or any ERISA Affiliate is required to contribute to each Plan pursuant to its terms and as required to meet the minimum funding standard set forth in ERISA and the Code with respect thereto; or (iv) any change in the funding status of any Plan, provided that the foregoing events individually or in combination could reasonably be expected to have a Material Adverse Effect, together with a description of any such event or condition or a copy of any such notice and a statement by the chief financial officer of the Principal Borrower briefly setting forth the details regarding such event, condition, or notice, and the action, if

any, which has been or is being taken or is proposed to be taken by the Credit Parties with respect thereto. Promptly upon request, the Credit Parties shall furnish the Administrative Agent and the Lenders with such additional information concerning any Plan as may be reasonably requested, including, but not limited to, copies of each annual report/return (Form 5500 series), as well as all schedules and attachments thereto required to be filed with the Department of Labor and/or the Internal Revenue Service pursuant to ERISA and the Code, respectively, for each “plan year” (within the meaning of Section 3(39) of ERISA).

(k) Environmental.

(i) If the Administrative Agent requests in writing and if (A) the Borrower does not have environmental insurance with respect to any property owned, leased or operated by a Credit Party or (B) the Administrative Agent has reason to believe that there exists on any property owned, leased or operated by a Credit Party Hazardous Materials which materially affect the value of such property and with respect to which the Borrower has not furnished a report within the immediately previous twelve (12) month period, the Borrowers will furnish or cause to be furnished to the Administrative Agent, at the Borrowers’ expense, a report of an environmental assessment of reasonable scope, form and depth, including, where appropriate, invasive soil or groundwater sampling, by a consultant reasonably acceptable to the Administrative Agent as to the nature and extent of the presence of any Hazardous Materials on any such property and as to the compliance by the Credit Parties with Environmental Laws; provided that if there exists a continuing default or Event of Default as of the date of the Administrative Agent’s written request for an environmental report pursuant to the terms of this Section 7.1(k)(i), the Borrower shall provide such report regardless of whether either of the conditions set forth in subsections (A) and (B) of this Section 7.1(k)(i) has been satisfied. If the Borrowers fail to deliver such an environmental report within seventy-five (75) days after receipt of such written request then the Administrative Agent may arrange for same, and the Credit Parties hereby grant to the Administrative Agent and their representatives access to the Properties and a license of a scope reasonably necessary to undertake such an assessment (including, where appropriate, invasive soil or groundwater sampling).

(ii) Each Credit Party will conduct and complete all investigations, studies, sampling, and testing and all remedial, removal, and other actions necessary to address all Hazardous Materials on, from, or affecting any real property owned or leased by a Credit Party to the extent necessary to be in compliance with all Environmental Laws and all other applicable federal, state, and local laws, regulations, rules and policies and with the orders and directives of all Governmental Authorities exercising jurisdiction over such real property to the extent any failure could reasonably be expected to have a Material Adverse Effect.

(iii) Each Credit Party will promptly provide upon such Credit Party’s receipt thereof all insurance certificate(s) evidencing the environmental insurance held by any of the Consolidated Parties with respect to the Properties.

(l) Quarterly Stock Repurchase/Joinder Statements. As soon as available, and in any event, within forty-five (45) days after the end of each fiscal quarter, a Quarterly Stock Repurchase/Joinder Statement. Attached to such Quarterly Stock Repurchase/Joinder Statement shall be (i) a certification from a Responsible Officer confirming that, as of the date of the Quarterly Stock Repurchase/Joinder Statement, there exist no Subsidiaries that should be, but have not yet been, joined as Credit Parties and (ii) copies of all Joinder Agreements executed during the immediately preceding fiscal quarter.

(m) Other Information. With reasonable promptness upon any such request, such other information regarding the business, insurance, properties or financial condition of any Consolidated Party as the Administrative Agent or the Required Lenders through the Administrative Agent may reasonably request.

(n) Reportable Transactions. Promptly after any Borrower has notified the Administrative Agent of any intention by any Borrower to treat Loans and/or Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4), a duly completed copy of IRS Form 8886 or any successor form.

7.2 Preservation of Existence and Franchises .

Except as a result of or in connection with a merger of a Subsidiary permitted by Section 8.4 or as a result of an Asset Disposition permitted by Section 8.17, each Credit Party will, and will cause each of its material Subsidiaries to, do all things necessary to preserve and keep in full force and effect its existence, rights, franchises and authority. Highwoods Properties will maintain its status as a REIT.

7.3 Books and Records .

Each Credit Party will, and will cause each of its Subsidiaries to, keep complete and accurate books and records of its transactions in accordance with good accounting practices on the basis of GAAP (including the establishment and maintenance of appropriate reserves).

7.4 Compliance with Law .

(a) Each Credit Party will, and will cause each of its Subsidiaries to, comply with all Environmental Laws, except to the extent any violations thereof result in aggregate projected clean up costs (to all Credit Parties, collectively) of less than \$25,000,000; provided, however, that to the extent any material violation of any Environmental Law results from an intentional, willful or reckless act of any Credit Party or any of their Subsidiaries and any Environmental Law requires clean up or other remediation as a consequence of such violation, the Credit Parties or their Subsidiaries shall, upon obtaining knowledge of such condition, diligently pursue such required clean up and/or other remediation.

(b) Each Credit Party will, and will cause each of its Subsidiaries to, comply with all other material laws, rules, regulations and orders, and all applicable material restrictions imposed by all Governmental Authorities, applicable to it and its property.

7.5 Payment of Taxes and Other Indebtedness .

Each Credit Party will, and will cause each of its Subsidiaries to, pay and discharge (a) all taxes, assessments and governmental charges or levies imposed upon it, or upon its income or profits, or upon any of its properties, before they shall become delinquent, and (b) all lawful claims (including claims for labor, materials and supplies) which, if unpaid, might give rise to a Lien upon any of its properties; provided, however, that no Consolidated Party shall be required to pay any such tax, assessment, charge, levy, claim or Indebtedness which is being contested in good faith by appropriate proceedings and as to which adequate reserves therefor have been established in accordance with GAAP, unless the failure to make any such payment could reasonably be expected to have a Material Adverse Effect.

7.6 Insurance .

Each Credit Party will, and will cause each of its Subsidiaries to, at all times maintain in full force and effect insurance (including worker's compensation insurance, liability insurance, environmental insurance, casualty insurance and business interruption insurance) in such amounts, covering such risks and liabilities and with such deductibles or self-insurance retentions as are in accordance with normal industry practice. The present insurance coverage of the Consolidated Parties is outlined as to carrier, policy number, expiration date, type and amount on Schedule 7.6. Each such policy will require and the certificates will state, that no such policy will be terminated without at least thirty (30) days prior written notice having been delivered to the Administrative Agent.

7.7 Maintenance of Property .

Each Credit Party will, and will cause each of its Subsidiaries to, maintain and preserve its properties and equipment in good repair, working order and condition, normal wear and tear and casualty and condemnation excepted, and will make, or cause to be made, in such properties and equipment from time to time all repairs, renewals, replacements, extensions, additions, betterments and improvements thereto as may be needed or proper, to the extent and in the manner customary for companies in similar businesses.

7.8 Performance of Obligations .

Each Credit Party will, and will cause each of its Subsidiaries to, perform in all material respects all of its obligations under the terms of all material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or by which it is bound, except to the extent any failure to so perform is not likely to result in a Material Adverse Effect.

7.9 Use of Proceeds .

The Borrowers will use the proceeds of the Loans and will use the Letters of Credit solely for the purposes set forth in Section 6.15.

7.10 Audits/Inspections .

Upon reasonable notice and during normal business hours and in a manner that will not unreasonably interfere with its business operations, each Credit Party will, and will cause each of its Subsidiaries to, permit representatives appointed by the Administrative Agent, including, without limitation, independent accountants, agents, attorneys, and appraisers to visit and inspect its property, including its books and records, its accounts receivable and inventory, its facilities and its other business assets, and to make photocopies or photographs thereof and to write down and record any information such representative obtains and shall permit the Administrative Agent or its representatives to investigate and verify the accuracy of information provided to the Lenders and to discuss all such matters with the officers, employees and representatives of such Person.

7.11 Financial Covenants .

(a) Total Liabilities to Total Assets . At all times, the TL/TA Ratio shall be less than or equal to 0.575 to 1.00.

(b) Unencumbered Assets to Unsecured Debt . At all times, the ratio of (i) Unencumbered Assets to (ii) Unsecured Debt shall be greater than or equal to 2.00 to 1.00.

(c) Secured Debt to Total Assets . At all times, the ratio of (i) Secured Debt to (ii) Total Assets shall be less than or equal to 0.35 to 1.00.

(d) Interest Coverage Ratio . At all times, the Interest Coverage Ratio shall be greater than 2.10 to 1.00.

(e) Fixed Charge Coverage Ratio . At all times the Fixed Charge Coverage Ratio shall be greater than 1.55 to 1.00.

(f) Unsecured Debt Coverage Ratio . At all times, the ratio of (i) aggregate Adjusted NOI for all Properties contributing to the calculation of Unencumbered Assets for the twelve (12) month period immediately preceding the last day of the calendar month most recently ended, (including, without limitation, (A) for Properties sold prior to the date of calculation, Adjusted NOI for such Properties during the applicable calculation period up to the date of such sale, and (B) for Properties which drop out of the calculation of Unencumbered Assets prior to such date of calculation, Adjusted NOI for such Properties during the applicable calculation period up to the date on which such Property is no longer considered for purposes of calculating Unencumbered Assets; provided, however, that Adjusted NOI for Properties first included in the calculation of Unencumbered Assets during the applicable calculation period shall be included only to the extent received on or after the date on which such Property is included in the calculation of Unencumbered Assets) to (ii) Interest Expense paid on Unsecured Debt for the twelve (12) month period immediately preceding the last day of the calendar month most recently ended, shall be greater than 2.25 to 1.0.

(g) Tangible Net Worth . At all times the Tangible Net Worth shall be greater than or equal to the sum of (i) \$1,575,000,000.00, plus (ii) an amount equal to 85.0% of the Net Cash

Proceeds received by the Consolidated Parties in connection with any Equity Issuance subsequent to the Closing Date calculated on a cumulative basis as of the end of each fiscal quarter of the Consolidated Parties following the Closing Date, less (iii) (A) to the extent the aggregate Dollar amount paid by the Consolidated Parties for the purchase, redemption, retirement or acquisition of Capital Stock of the Principal Borrower following the Closing Date is equal to or less than the Net Cash Proceeds received by the Consolidated Parties in connection with all Equity Issuances subsequent to the Closing Date (and calculated as set forth above), an amount equal to 85.0% of the aggregate Dollar amount so paid by the Consolidated Parties for such purchase, redemption, retirement or acquisition, and (B) to the extent the aggregate Dollar amount paid by the Consolidated Parties for the purchase, redemption, retirement or acquisition of Capital Stock of the Principal Borrower following the Closing Date is in excess of the Net Cash Proceeds received by the Consolidated Parties in connection with all Equity Issuances subsequent to the Closing Date (and calculated as set forth above), 100.0% of such excess amount.

(h) Speculative Land to Total Assets. At all times, the ratio of (i) the value of all Speculative Land (as adjusted to deduct therefrom the pro rata share of Speculative Land allocable to the Outside Interests) to (ii) Total Assets shall be less than or equal to 0.10 to 1.00.

(i) Budgeted Project Cost Ratios.

(i) At all times, the ratio of (A) the Budgeted Project Costs of all Properties Under Development (excluding Build To Suit Properties; and as adjusted to deduct therefrom the pro rata share of Properties Under Development allocable to the Outside Interests) to (B) Total Assets shall be less than or equal to 0.10 to 1.00.

(ii) At all times, the ratio of (A) the Budgeted Project Costs of all Properties Under Development (including Build To Suit Properties; and as adjusted to deduct therefrom the pro rata share of Properties Under Development allocable to the Outside Interests) to (B) Total Assets shall be less than or equal to 0.20 to 1.00.

(iii) At all times, the ratio of (A) the sum of (1) the value of all Speculative Land (as adjusted to deduct therefrom the pro rata share of Speculative Land allocable to the Outside Interests) plus (2) the Budgeted Project Costs of all Properties Under Development (including Build to Suit Properties; and as adjusted to deduct therefrom the pro rata share of Properties Under Development allocable to the Outside Interests) to (B) Total Assets shall be less than or equal to 0.25 to 1.00.

(j) Investment in Properties other than For Lease Office and Industrial Properties. The Credit Parties will not permit any Consolidated Party to, directly or indirectly, acquire, develop or otherwise make an Investment in any properties other than for lease office and industrial properties which in the aggregate shall exceed at any one time an amount greater than 10% of Total Assets.

(k) Restricted Payments. The Credit Parties will not permit the Consolidated Parties to, directly or indirectly, declare, order, make or set apart any sum for or pay any Restricted Payments to the extent that, as of the end of the calendar quarter most recently ended, the aggregate Restricted Payments made during the period commencing as of (and including) April 1, 2003 and extending through the end of such quarter is in excess of an amount equal to the greater of (i) the sum of (A) an amount equal to the amount of dividends required to be paid by Highwood Properties during such period to retain its status as a REIT and to meet the distribution requirements of Section 857 of the Code, plus (B) \$5,000,000 and (ii) ninety-five percent (95%) of the sum equal to (A) one hundred percent (100%) of Cash Available for Distribution for the date of calculation, plus (B) 25% of Net Asset Sales Proceeds derived from sales of Speculative Land during such period, plus (C) 70% of Net Asset Sales Proceeds derived from sales of Properties of the Consolidated Parties not considered to be Speculative Land during such period; provided, however, that, for purposes of calculating the amount set forth in subclause (ii), the amount added pursuant to items (B) and (C) thereof (the items concerning Net Asset Sales Proceeds) shall not

exceed, in the aggregate, (1) for any calculation date during the period commencing as of the date hereof and ending as of the date 12 calendar months thereafter, \$50,000,000; (2) for any calculation date during the period commencing the day immediately following the date which is 12 calendar months following the date hereof and ending as of the date 24 calendar months following the date hereof, \$100,000,000; or (3) for any calculation date during the period commencing the day immediately following the date which is 24 calendar months following the date hereof and ending as of the date 36 calendar months following the date hereof, \$150,000,000.

(l) Purchases, Redemptions and Retirements of Principal Borrower Capital Stock. The Principal Borrower may purchase, redeem, retire or otherwise acquire for value any shares of any class of Capital Stock of the Principal Borrower, provided, however, that the amount of all such purchases, redemptions, retirements or payments shall not exceed in the aggregate the sum of (i) 75% of Net Asset Sales Proceeds derived from sales of Speculative Land, plus (y) 30% of Net Asset Sales Proceeds derived from sales of Properties of the Consolidated Parties not considered to be Speculative Land, in each case for the period commencing as of July 1, 2002 and extending through the date of calculation.

(m) Investments in Non-Wholly Owned Subsidiaries. The Credit Parties will not permit the Borrowers or any Wholly Owned Subsidiary that is a Credit Party to make any Investment in any Non-Wholly Owned Subsidiary that is a Credit Party except to the extent that the Adjusted Investment Value of such Investments does not exceed, in the aggregate at any time outstanding, an amount equal to 15% of the sum of (i) Total Assets less (ii) an amount equal to the percentage of Total Assets represented by the Adjusted Investment Value of Investments made pursuant to Section 7.11(n).

(n) Investments in Non-Consolidated Parties. The Credit Parties will not permit any Investments in any Person that is not a Consolidated Party except to the extent that the aggregate Adjusted Investment Value of all such Investments in all such Persons does not exceed 10% of Total Assets in the aggregate at any one time outstanding.

7.12 Additional Credit Parties.

If any Person becomes a Subsidiary of any Credit Party or upon the formation of any Preferred Stock Subsidiary or if at any time any Non-Guarantor Subsidiary could become a Credit Party without violating the terms of any material contract, agreement or document to which it is a party, the Principal Borrower shall (a) if such Person is a Domestic Subsidiary of a Credit Party or a Preferred Stock Subsidiary, cause such Person to execute a Joinder Agreement in substantially the same form as Exhibit 7.12 on or before the deadline for delivery of the next Quarterly Stock Repurchase/Joinder Statement, (b) provide the Administrative Agent with notice thereof on a quarterly basis by delivering a Quarterly Stock Repurchase/Joinder Statement and other documentation as required in Section 7.1(l), and (c) cause such Person to deliver such other documentation as the Administrative Agent may reasonably request in connection with the foregoing, including, without limitation, certified resolutions and other organizational and authorizing documents of such Person, favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to above), all in form, content and scope reasonably satisfactory to the Administrative Agent. If a Non-Guarantor Subsidiary executes and delivers a Joinder Agreement it shall no longer be deemed a Non-Guarantor Subsidiary under this Credit Agreement. Notwithstanding the foregoing, the Credit Parties shall be permitted to not cause a Subsidiary to execute a Joinder Agreement as provided above if either (i) such Subsidiary holds no assets; or (ii) (A) such Subsidiary holds total assets with a value of less than \$500,000 and (B) the sum of the values of the total assets held by the Subsidiaries already excluded as Guarantors pursuant to subclause (A) plus the value of the total assets held by the applicable Subsidiary is less than \$5,000,000.

7.13 Management.

Each of O. Temple Sloan, Ronald P. Gibson, Carman Liuzzo and Edward J. Fritsch shall remain active in the management of Highwoods Properties; provided that upon the death, disability or retirement of any of the above-referenced individuals, Highwoods Properties shall have six months to provide the Administrative Agent with

substitute personnel as replacements; such substitute personnel to be acceptable to the Administrative Agent in its reasonable discretion.

7.14 Upstream of Excess Cash Flow .

Each Credit Party shall cause all “Excess Cash Flow” (as defined below) of a Non-Guarantor Subsidiary to be transferred to a Credit Party as promptly as possible but at least once a month. For the purposes of this Section 7.14, “Excess Cash Flow” means an amount equal to all net operating income of such Non-Guarantor Subsidiary minus all debt service payments of such Non-Guarantor Subsidiary minus all amounts required to fund reserves of such Non-Guarantor Subsidiary.

7.15 Reporting of Certain Guaranty Obligations .

The Borrower shall, as of the Closing Date and from time to time as of each date on which an officer’s certificate is required to be delivered pursuant to Section 7.1(c) hereof, deliver to the Administrative Agent in writing a complete list of all Guaranty Obligations of the Credit Parties described in clause (iv) of the definition of Guaranty Obligations and, for each of such obligations, information as to (i) the amount of leasable space, per square foot rental rate and term applicable to such obligations, (ii) any leases or other revenue sources for which the Credit Parties receive credit towards such obligations and (iii) any cash reserves being maintained in relation to such obligations and the method of calculation thereof.

7.16 Environmental Indemnity .

The Credit Parties agree that they will reimburse the Lenders for and hereby hold the Lenders harmless from all fines or penalties made or levied against any of the Lenders by any Governmental Authority as a result of or in connection with (i) the use of Materials of Environmental Concern at the Properties, (ii) the use of Materials of Environmental Concern at the facilities thereon, or (iii) the use, generation, storage, transportation, discharge, release or handling of any Materials of Environmental Concern at the Properties, or as a result of any release of any Materials of Environmental Concern onto the ground or into the water or air from or upon the Properties at any time. The Credit Parties also agree that they will reimburse the Lenders for and indemnify and hold the Lenders harmless from any and all costs, expenses (including reasonably attorneys’ fees actually incurred) and for all civil claims, judgments or penalties incurred entered, assessed, or levied against any of the Lenders as a result of any of the Credit Parties’ use of Materials of Environmental Concern at the Properties or as a result of any release of any Materials of Environmental Concern on the ground or into the water or air by any of the Credit Parties from or upon the Properties. Such reimbursement or indemnification shall include but not be limited to any and all judgments or penalties to recover the costs of cleanup of any such release by any of the Credit Parties from or upon Properties and all reasonable expenses incurred by the Lenders as a result of such a civil action, including but not limited to reasonable attorneys’ fees. The Credit Parties’ obligations under this section shall survive the repayment of the Loans.

SECTION 8

NEGATIVE COVENANTS

Each Credit Party hereby covenants and agrees that, so long as this Credit Agreement is in effect or any amounts payable hereunder or under any other Credit Document shall remain outstanding, and until all of the Commitments hereunder shall have terminated:

8.1 Indebtedness.

The Credit Parties will not permit any Consolidated Party to contract, create, incur, assume or permit to exist any Indebtedness, except:

- (a) Indebtedness arising under this Credit Agreement and the other Credit Documents;

(b) Indebtedness set forth in Schedule 8.1 (and renewals, refinancings and extensions thereof (i) on terms and conditions no less favorable to such Person than such existing Indebtedness or (ii) in the case such existing Indebtedness becomes unsecured, on terms and conditions consistent with then prevailing market standards for such unsecured Indebtedness) and in a principal amount not in excess of that outstanding as of the date of such renewal, refinancing or extension;

(c) Indebtedness arising from obligations of the Credit Parties evidenced by the interest rate protection agreements entered into in order to manage existing or anticipated interest rate or exchange rate risks and not for speculative purposes;

(d) Other unsecured Indebtedness;

(e) Other secured Indebtedness that is nonrecourse to any Credit Party (subject to normal and customary recourse carveouts in the ordinary course of business); and

(f) Other secured Indebtedness that is recourse to any Credit Party provided that such secured Indebtedness, in the aggregate, shall not exceed at any one time a principal amount greater than 5% of Total Assets.

8.2 Liens .

The Credit Parties will not permit any Consolidated Party to contract, create, incur, assume or permit to exist any Lien with respect to any ownership interest in a Non-Guarantor Subsidiary.

8.3 Nature of Business .

Except as provided in Section 7.11(j), the Credit Parties will not permit the Consolidated Parties as a whole to substantially alter the character or conduct of the business conducted by such Person as of the Closing Date.

8.4 Consolidation, Merger, Dissolution, etc .

The Credit Parties will not permit any Consolidated Party to enter into any transaction of merger or consolidation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); provided that, notwithstanding the foregoing provisions of this Section 8.4, (a) each of the Borrowers may merge or consolidate with any of its Subsidiaries so long as (i) such Borrower shall be the continuing or surviving entity and (ii) after giving effect thereto no Default or Event of Default exists, (b) any Person may be merged or consolidated with or into Highwoods Properties so long as (i) Highwoods Properties is the continuing or surviving corporation and (ii) after giving effect thereto no Default or Event of Default exists and (c) any Consolidated Party other than Highwoods Properties or a Borrower may merge or consolidate with any Person other than Highwoods Properties or a Borrower so long as the Person surviving such merger or consolidation is or becomes a Credit Party pursuant to Section 7.12 hereof.

8.5 Intentionally Omitted

8.6 Investments .

The Credit Parties will not permit any Consolidated Party to lend money or extend credit or make advances to any Person or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, or otherwise make an Investment in any Person except for Permitted Investments.

8.7 Intentionally Omitted

8.8 Prepayments of Indebtedness, etc .

The Credit Parties will not permit any Consolidated Party to (a) if any Default or Event of Default has occurred and is continuing or would be directly or indirectly caused as a result thereof, after the issuance thereof, amend or modify

(or permit the amendment or modification of) any of the terms of any Indebtedness if such amendment or modification would add or change any terms in a manner adverse to the issuer of such Indebtedness, or shorten the final maturity or average life to maturity or require any payment to be made sooner than originally scheduled or increase the interest rate applicable thereto or change any subordination provision thereof, or (b) if any Default or Event of Default has occurred and is continuing or would be directly or indirectly caused as a result thereof, make (or give any notice with respect thereto) any voluntary or optional payment or prepayment or redemption or acquisition for value of (including without limitation, by way of depositing money or securities with the trustee with respect thereto before due for the purpose of paying when due), refund, refinance or exchange of any other Indebtedness.

8.9 Transactions with Affiliates .

The Credit Parties will not permit any Consolidated Party to enter into or permit to exist any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director, shareholder, Subsidiary or Affiliate of such Person other than (i) transactions permitted by Section 8.6, (ii) customary fees paid to directors in the ordinary course of business, (iii) the payment of compensation to employees and officers in the ordinary course of business, (iv) the creation of Preferred Stock Subsidiaries and (v) on terms and conditions substantially as favorable to such Person as would be obtainable by it in a comparable arms-length transaction with a Person other than an officer, director, shareholder, Subsidiary or Affiliate.

8.10 Fiscal Year; Organizational Documents .

The Credit Parties will not permit any Consolidated Party to (a) change its fiscal year without the prior written consent of the Required Lenders or (b) amend, modify or change its partnership agreement (other than a change limited solely to add additional limited partners or authorize the issuance of additional units) or articles of incorporation (or corporate charter or other similar organizational document) or bylaws (or other similar document) in any manner that would reasonably be likely to adversely affect the rights of the Lenders in any material respect.

8.11 Limitation on Restricted Actions .

Without providing prior written notice to the Administrative Agent, the Credit Parties will not permit any Consolidated Party to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Person to (a) pay dividends or make any other distributions to any Credit Party on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, (b) pay any Indebtedness or other obligation owed to any Credit Party, (c) make loans or advances to any Credit Party or (d) sell, lease or transfer any of its properties or assets to any Credit Party, except (in respect of any of the matters referred to in clauses (a) through (d) above) for such encumbrances or restrictions existing under or by reason of this Credit Agreement and the other Credit Documents.

8.12 Ownership of Subsidiaries .

Notwithstanding any other provisions of this Credit Agreement to the contrary, the Credit Parties will not permit any Consolidated Party other than Highwoods Properties, Highwoods Realty or any Preferred Stock Subsidiary to issue any shares of preferred Capital Stock to any Person other than a Credit Party. Furthermore, Highwoods Realty and Highwoods Properties shall at all times maintain ownership, directly or indirectly, all of the Capital Stock of AP Southeast Portfolio Partners, L.P., a Delaware limited partnership, AP-GP Southeast Portfolio Partners, L.P., a Delaware limited partnership and Highwoods Realty GP Corp., a Delaware corporation.

8.13 Sale Leasebacks .

Except as could not reasonably be expected to have a Material Adverse Effect, the Credit Parties will not permit any Consolidated Party to, directly or indirectly, become or remain liable as lessee or as guarantor or other surety with respect to any lease, whether an Operating Lease or a Capital Lease, of any property (whether real or personal or mixed), whether now owned or hereafter acquired, (a) which such Consolidated Party has sold or transferred or is to sell or transfer to a Person which is not a Consolidated Party or (b) which such Consolidated Party intends to use for substantially the same purpose as any other property which has been sold or is to be sold or transferred by such Consolidated Party to another Person which is not a Consolidated Party in connection with such lease.

8.14 No Further Negative Pledges .

The Credit Parties will not permit any Consolidated Party to enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired, or requiring the grant of any security for such obligation if security is given for some other obligation except pursuant to any document or instrument governing Indebtedness incurred pursuant to Section 8.1(b), Section 8.1(e) or Section 8.1(f), provided that any such restriction contained therein relates only to the properties or assets constructed or acquired in connection with such Indebtedness.

8.15 Non-Guarantor Subsidiaries .

Notwithstanding any other provision of this Credit Agreement, the Credit Parties shall prohibit any Non-Guarantor Subsidiary from (a) forming or acquiring any new Subsidiary, (b) incurring any new Indebtedness other than Indebtedness in respect of current accounts payable and accrued expenses incurred in the ordinary course of business, (c) purchasing or acquiring any new assets or (d) incurring any change in its ownership.

8.16 Intentionally Omitted .

8.17 Asset Dispositions .

The Credit Parties will not permit any Consolidated Party to make any Asset Disposition in which the value of the assets sold or otherwise disposed pursuant to such Asset Disposition exceeds \$30,000,000 unless the Principal Borrower shall have delivered to the Administrative Agent at least two (2) Business Days prior to such Asset Disposition a Pro Forma Compliance Certificate demonstrating that, upon giving effect to such Asset Disposition, on a pro forma basis the Credit Parties shall be in compliance with all of the covenants contained in Section 7.11.

SECTION 9

EVENTS OF DEFAULT

9.1 Events of Default .

An Event of Default shall exist upon the occurrence of any of the following specified events (each an “Event of Default”):

(a) Payment . Any Credit Party shall

(i) default in the payment when due of any principal of any of the Loans or of any reimbursement obligations arising from drawings under Letters of Credit, or

(ii) default, and such default shall continue for three (3) or more Business Days, in the payment when due of any interest on the Loans or on any reimbursement obligations arising from drawings under Letters of Credit, or of any Fees or other amounts owing hereunder, under any of the other Credit Documents or in connection herewith or therewith; or

(b) Representations . Any representation, warranty or statement made or deemed to be made by any Credit Party herein, in any of the other Credit Documents, or in any statement or certificate delivered or required to be delivered pursuant hereto or thereto shall prove untrue in any material respect on the date as of which it was made or deemed to have been made; or

(c) Covenants . Any Credit Party (or the Credit Parties collectively) shall

(i) default in the due performance or observance of any term, covenant or agreement contained in Sections 7.2, 7.4(a), 7.9, 7.11, 7.12 or 8.1 through 8.17, inclusive; or

(ii) default in the due performance or observance of any term, covenant or agreement contained in Sections 7.1(a), (b) (c) or (d) and such default shall continue unremedied for a period of at least 5 days after the earlier of a Responsible Officer of a Credit Party becoming aware of such default or notice thereof by the Administrative Agent; or

(iii) default in the due performance or observance by it of any term, covenant or agreement (other than those referred to in subsections (a), (b), (c)(i) or (c)(ii) of this Section 9.1) contained in this Credit Agreement and such default shall continue unremedied for a period of at least 30 days after the earlier of a responsible officer of a Credit Party becoming aware of such default or notice thereof by the Administrative Agent; or

(d) Other Credit Documents. (i) Any Credit Party shall default in the due performance or observance of any term, covenant or agreement in any of the other Credit Documents (subject to applicable grace or cure periods, if any), or (ii) any Credit Document shall fail to be in full force and effect or to give the Administrative Agent and/or the Lenders the rights, powers and privileges purported to be created thereby, or any Credit Party shall so state in writing; or

(e) Guaranties. The guaranty given by any Guarantor hereunder (including any Additional Credit Party) or any provision thereof shall cease to be in full force and effect, or any Guarantor (including any Additional Credit Party) hereunder or any Person acting by or on behalf of such Guarantor shall deny or disaffirm such Guarantor's obligations under such guaranty, or any Guarantor shall default in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to any guaranty; or

(f) Bankruptcy, etc.. Any Bankruptcy Event shall occur with respect to any Consolidated Party; or

(g) Defaults under Other Agreements.

(i) Any Consolidated Party shall default in the performance or observance (beyond the applicable grace period with respect thereto, if any) of any obligation or condition of any contract or lease of such Consolidated Party such that the default would have a Material Adverse Effect; or

(ii) With respect to any Indebtedness (other than Indebtedness outstanding under this Credit Agreement) in excess of \$7,500,000 in the aggregate for the Consolidated Parties taken as a whole, (A) any Consolidated Party shall (1) default in any payment (beyond the applicable grace period with respect thereto, if any) with respect to any such Indebtedness, or (2) the occurrence and continuance of a default in the observance or performance relating to such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event or condition shall occur or condition exist, the effect of which default or other event or condition is to cause, or permit, the holder or holders of such Indebtedness (or trustee or Administrative Agent on behalf of such holders) to cause (determined without regard to whether any notice or lapse of time is required), any such Indebtedness to become due prior to its stated maturity; or (B) any such Indebtedness shall be declared due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof. The events set forth in this Section 9.1(g)(ii) shall constitute an immediate Event of Default notwithstanding any cure period that would be otherwise applicable with respect to such event pursuant to the terms of this Credit Agreement (including, without limitation, cure periods provided with respect to violations of Section 7.5).

(h) Judgments. One or more judgments or decrees shall be entered against one or more of the Consolidated Parties involving a liability of \$5,000,000 or more in the aggregate (to the extent not paid or fully covered by insurance provided by a carrier who has acknowledged coverage and has the ability to perform) and

any such judgments or decrees shall not have been vacated, discharged or stayed or bonded pending appeal within 30 days from the entry thereof; or

(i) ERISA . (i) One or more ERISA Events occur with respect to Pension Plans or Multiemployer Plans which have resulted or could reasonably be expected to result in liability of any Credit Party under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$5,000,000.00 or to otherwise have a Material Adverse Effect, or (ii) any Credit Party or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$5,000,000.00; or

(j) Ownership . There shall occur a Change of Control.

9.2 Acceleration; Remedies .

Upon the occurrence of an Event of Default, and at any time thereafter unless and until such Event of Default has been waived by the Required Lenders or all of the Lenders, as applicable (pursuant to the voting requirements of Section 11.6) or cured to the satisfaction of the Required Lenders or all of the Lenders, as applicable (pursuant to the voting procedures in Section 11.6), the Administrative Agent shall, upon the request and direction of the Required Lenders, by written notice to the Credit Parties take any of the following actions:

(a) Termination of Commitments . Declare the Commitments terminated whereupon the Commitments shall be immediately terminated.

(b) Acceleration . Declare the unpaid principal of and any accrued interest in respect of all Loans, any reimbursement obligations arising from drawings under Letters of Credit and any and all other indebtedness or obligations of any and every kind owing by the Borrowers to the Administrative Agent and/or any of the Lenders hereunder to be due whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrowers.

(c) Cash Collateral . Direct the Borrowers to pay (and the Borrowers agree that upon receipt of such notice, or upon the occurrence of an Event of Default under Section 9.1(f), it will immediately pay) to the Administrative Agent additional cash, to be held by the Administrative Agent, for the benefit of the Lenders, in a cash collateral account as additional security for the LOC Obligations in respect of subsequent drawings under all then outstanding Letters of Credit in an amount equal to the maximum aggregate amount which may be drawn under all Letters of Credits then outstanding.

(d) Enforcement of Rights . Enforce any and all rights and interests created and existing under the Credit Documents and all rights of set-off.

Notwithstanding the foregoing, if an Event of Default specified in Section 9.1(f) shall occur, then the Commitments shall automatically terminate and all Loans, all reimbursement obligations arising from drawings under Letters of Credit, all accrued interest in respect thereof, all accrued and unpaid Fees and other indebtedness or obligations owing to the Administrative Agent and/or any of the Lenders hereunder automatically shall immediately become due and payable without the giving of any notice or other action by the Administrative Agent or the Lenders.

SECTION 10

AGENCY PROVISIONS

10.1 Appointment, Powers and Immunities; Delegation of Duties; Liability of Agents .

(a) Each Lender hereby irrevocably appoints and authorizes the Administrative Agent to act as its Administrative Agent under this Credit Agreement and the other Credit Documents with such powers and discretion as are specifically delegated to the Administrative Agent by the terms of this Credit Agreement and the

other Credit Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in Section 10.5 and the first sentence of Section 10.6 hereof shall include its Affiliates and its own and its Affiliates' officers, directors, employees, and Administrative Agents): (a) shall not have any duties or responsibilities except those expressly set forth in this Credit Agreement and shall not be a trustee or fiduciary for any Lender; (b) shall not be responsible to the Lenders for any recital, statement, representation, or warranty (whether written or oral) made in or in connection with any Credit Document or any certificate or other document referred to or provided for in, or received by any of them under, any Credit Document, or for the value, validity, effectiveness, genuineness, enforceability, or sufficiency of any Credit Document, or any other document referred to or provided for therein or for any failure by any Credit Party or any other Person to perform any of its obligations thereunder; (c) shall not be responsible for or have any duty to ascertain, inquire into, or verify the performance or observance of any covenants or agreements by any Credit Party or the satisfaction of any condition or to inspect the property (including the books and records) of any Credit Party or any of its Subsidiaries or Affiliates; (d) shall not be required to initiate or conduct any litigation or collection proceedings under any Credit Document; and (e) shall not be responsible for any action taken or omitted to be taken by it under or in connection with any Credit Document, except for its own gross negligence or willful misconduct. The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Credit Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) The Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the Issuing Lender shall have all of the benefits and immunities (i) provided to the Administrative Agent in this Section 10 with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this Section 10 and in the definition of "Agent-Related Person" included the Issuing Lender with respect to such acts or omissions, and (ii) as additionally provided herein with respect to the Issuing Lender.

(c) The Administrative Agent may execute any of its duties under this Agreement or any other Credit Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

(d) No Agent-Related Person shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Credit Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (ii) be responsible in any manner to any Lender or participant for any recital, statement, representation or warranty made by any Credit Party or any officer thereof, contained herein or in any other Credit Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Credit Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Credit Document, or for any failure of any Credit Party or any other party to any Credit Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Credit Document, or to inspect the properties, books or records of any Credit Party or any Affiliate thereof.

10.2 Reliance by Administrative Agent.

(a) The Administrative Agent shall be entitled to rely upon any certification, notice, instrument, writing, or other communication (including, without limitation, any thereof by telephone or telecopy) believed by it to be genuine and correct and to have been signed, sent or made by or on behalf of the proper Person or Persons, and

upon advice and statements of legal counsel (including counsel for any Credit Party), independent accountants, and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until the Administrative Agent receives and accepts an Assignment and Acceptance executed in accordance with Section 11.3(b) hereof. As to any matters not expressly provided for by this Credit Agreement, the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding on all of the Lenders; provided, however, that the Administrative Agent shall not be required to take any action that exposes the Administrative Agent to personal liability or that is contrary to any Credit Document or applicable law or unless it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking any such action.

(b) For purposes of determining compliance with the conditions specified in Section 5.1, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

10.3 Defaults .

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or Event of Default (other than nonpayment of principal of or interest on the Loans) unless the Administrative Agent has received written notice from a Lender or one of the Borrowers specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Administrative Agent receives such a notice of the occurrence of a Default or Event of Default, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall (subject to Section 10.2 hereof) take such action with respect to such Default or Event of Default as shall reasonably be directed by the Required Lenders, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders.

10.4 Rights as a Lender .

With respect to its Commitment and the Loans made by it, Bank of America (and any successor acting as Administrative Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity. Bank of America (and any successor acting as Administrative Agent) and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Credit Parties and their respective Affiliates as though Bank of America were not the Administrative Agent, Swingline Lender or the Issuing Lender hereunder and without notice to or consent of the Lenders, and Bank of America (and any successor acting as Administrative Agent) and its Affiliates may accept fees and other consideration from any Credit Party or any of its Subsidiaries or Affiliates for services in connection with this Credit Agreement or otherwise without having to account for the same to the Lenders. The Lenders acknowledge that, pursuant to such activities, Bank of America or its Affiliates may receive information regarding any Credit Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Credit Party or such Affiliate) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them.

10.5 Indemnification .

The Lenders agree to indemnify the Administrative Agent only in its capacity as Administrative Agent (to the extent not reimbursed under Section 11.5 hereof, but without limiting the obligations of the Borrowers under such Section) ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' fees), or disbursements of

any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent (including by any Lender) in any way relating to or arising out of any Credit Document or the transactions contemplated thereby or any action taken or omitted by the Administrative Agent under any Credit Document; provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Person to be indemnified. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any costs or expenses payable by the Borrowers under Section 11.5, to the extent that the Administrative Agent is not promptly reimbursed for such costs and expenses by the Borrowers. The agreements in this Section 10.5 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

10.6 Non-Reliance on Administrative Agent and Other Lenders .

Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Credit Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Credit Parties and their respective Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Credit Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower and the other Credit Parties. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Credit Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person.

10.7 Successor Administrative Agent .

The Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Principal Borrower. The Administrative Agent may be removed at any time with cause by the Required Lenders, provided that the Principal Borrower and the other Lenders shall be promptly notified thereof. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent with the consent of the Borrower, such consent not to be unreasonably withheld or delayed; provided, however, that the Borrower shall have no right to consent to such appointment to the extent an Event of Default is continuing at the time of such appointment. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation or the Required Lender's removal, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a commercial bank organized or licensed under the laws of the United States of America having combined capital and surplus of at least \$100,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor, such successor shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges, and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

10.8 Administrative Agent May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Credit Party, the Administrative Agent (irrespective of whether the principal of any Loan or LOC Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrowers) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, LOC Obligations and all other Credit Party Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under this Agreement) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under this Agreement.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

10.9 Other Agents; Arrangers and Managers.

None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a “syndication agent,” “documentation agent,” “co-agent,” “book manager,” “lead manager,” “arranger,” “lead arranger” or “co-arranger” shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

10.10 Administrative Agent’s Commitment.

The Revolving Commitment of the Administrative Agent shall, at all times prior to the termination of the Commitments hereunder, be equal to or greater than the lesser of (a) \$10,000,000.00; and (b) the highest Revolving Commitment of any one of the other Lenders.

SECTION 11

MISCELLANEOUS

11.1 Notices.

Except as otherwise expressly provided herein, all requests, notices and other communications shall have been duly given and shall be effective (a) when delivered, (b) when transmitted via telecopy (or other facsimile device) to the

number set out below, (c) the Business Day following the day on which the same has been delivered prepaid to a reputable national overnight air courier service, or (d) the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address, in the case of the Borrowers, Guarantors and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on Schedule 2.1(a), or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrowers:

Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Attn: Carman Liuzzo
Telephone: (919) 875-6605
Telecopy: (919) 876-6929

if to a Guarantor:

[Name of Guarantor]
c/o Highwoods Realty Limited Partnership
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Attn: Carman Liuzzo
Telephone: (919) 875-6605
Telecopy: (919) 876-6929

if to the Administrative Agent:

Bank of America, N.A.
Real Estate Department
901 Main Street
TX1-492-14-11
Dallas, Texas 75202
Attn: Donna Kimbrough
Telephone: (214) 209-1569
Telecopy: (214) 290-9436

with a copy to:

Bank of America, N.A.
901 Main Street
Dallas, Texas 75202-3714
Attn: William T. Bowers, Jr.
Telephone: (214) 209-0276
Telecopy: (214) 209-0995

Notwithstanding anything contained herein to the contrary, to the extent a Lender or any Credit Party is given written notice of any request for an approval, consent or other decision from the Administrative Agent and such Person fails to reply to any such request within ten (10) Business Days of its receipt (or deemed receipt) thereof, such Lender or Credit Party shall be deemed to have approved the requested action, amendment, waiver or other matter.

11.2 Right of Set-Off; Adjustments .

Upon the occurrence and during the continuance of any Event of Default, each Lender (and each of its Affiliates) is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender (or any of its Affiliates) to or for the credit or the account of any

Credit Party against any and all of the obligations of such Person now or hereafter existing under this Credit Agreement, under the Notes, under any other Credit Document or otherwise, irrespective of whether such Lender shall have made any demand under hereunder or thereunder and although such obligations may be unmatured. Each Lender agrees promptly to notify any affected Credit Party after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender under this Section 11.2 are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

11.3 Benefit of Agreement; Assignments .

(a) This Credit Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided that none of the Credit Parties may assign or transfer any of its interests and obligations without prior written consent of the Lenders; provided further that the rights of each Lender to transfer, assign or grant participations in its rights and/or obligations hereunder shall be limited as set forth in this Section 11.3.

(b) Each Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Credit Agreement (including, without limitation, all or a portion of its Loans, its Notes, and its Commitment); provided, however, that

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender or an assignment of all of a Lender's rights and obligations under this Credit Agreement, any such partial assignment shall be in an amount at least equal to \$2,500,000 or an integral multiple of \$1,000,000 in excess thereof;

(iii) each such assignment by a Lender shall be of a constant, and not varying, percentage of all of its rights and obligations under this Credit Agreement and the Notes; and

(iv) the parties to such assignment shall execute and deliver to the Administrative Agent for its acceptance an Assignment and Acceptance in the form of Exhibit 11.3(b) hereto, together with any Note subject to such assignment and a processing fee of \$3,500.

Upon execution, delivery, and acceptance of such Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Credit Agreement. Upon the consummation of any assignment pursuant to this Section 11.3(b), the assignor, the Administrative Agent and the Borrowers shall make appropriate arrangements so that, if required, new Notes are issued to the assignor and the assignee. If the assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Principal Borrower and the Administrative Agent certification as to exemption from deduction or withholding of Taxes in accordance with Section 3.11.

(c) The Administrative Agent shall maintain at its address referred to in Section 11.1 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrowers, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrowers or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of

Exhibit 11.3(b) hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto.

(e) Each Lender may sell participations to one or more Persons in all or a portion of its rights, obligations or rights and obligations under this Credit Agreement (including all or a portion of its Commitment or its Loans); provided, however, that (i) such Lender's obligations under this Credit Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participant shall be entitled to the benefit of the yield protection provisions contained in Sections 3.7 through 3.12, inclusive, and the right of set-off contained in Section 11.2, and (iv) the Borrowers shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Credit Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrowers relating to its Loans and its Notes and to approve any amendment, modification, or waiver of any provision of this Credit Agreement (other than amendments, modifications, or waivers decreasing the amount of principal of or the rate at which interest is payable on such Loans or Notes, extending any scheduled principal payment date or date fixed for the payment of interest on such Loans or Notes, or extending its Commitment).

(f) Notwithstanding any other provision set forth in this Credit Agreement, any Lender may at any time assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Bank as collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

(g) Any Lender may furnish any information concerning the Borrowers or any of their Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of Section 11.14 hereof.

11.4 No Waiver; Remedies Cumulative.

No failure or delay on the part of the Administrative Agent or any Lender in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Administrative Agent or any Lender and any of the Credit Parties shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies which the Administrative Agent or any Lender would otherwise have. No notice to or demand on any Credit Party in any case shall entitle the Borrowers or any other Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Administrative Agent or the Lenders to any other or further action in any circumstances without notice or demand.

11.5 Expenses; Indemnification.

(a) The Borrowers agree to pay on demand all costs and expenses of the Administrative Agent in connection with the syndication, preparation, execution, delivery, administration, modification, and amendment of this Credit Agreement, the other Credit Documents, and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Administrative Agent actually incurred with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities under the Credit Documents. The Borrowers further agree to pay on demand all costs and expenses of the Administrative Agent and the Lenders, if any (including, without limitation, reasonable attorneys' fees and expenses actually incurred), in connection with the enforcement (whether through negotiations, legal proceedings, or otherwise) of the Credit Documents and the other documents to be delivered hereunder.

(b) The Borrowers agree to indemnify and hold harmless the Administrative Agent and each Lender and each of their Affiliates and their respective officers, directors, employees, agents, and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities, costs, and expenses (including, without limitation, reasonable attorneys' fees) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of

(including, without limitation, in connection with any investigation, litigation, or proceeding or preparation of defense in connection therewith) the Credit Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loans, except to the extent such claim, damage, loss, liability, cost, or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 11.5 applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by a Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrowers agree not to assert any claim against the Administrative Agent, any Lender, any of their Affiliates, or any of their respective directors, officers, employees, attorneys, agents, and advisers, on any theory of liability, for special, indirect, consequential, or punitive damages arising out of or otherwise relating to the Credit Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loans.

(c) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 11.5 shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

11.6 Amendments, Waivers and Consents .

Neither this Credit Agreement nor any other Credit Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing and entered into by, or approved in writing by, the Required Lenders and the Principal Borrower, provided, however, that:

(a) without the consent of each Lender affected thereby, neither this Credit Agreement nor any of the other Credit Documents may be amended, supplemented or modified to

(i) extend the final maturity of any Loan or the time of payment of any reimbursement obligation, or any portion thereof, arising from drawings under Letters of Credit,

(ii) reduce the rate or extend the time of payment of interest (other than as a result of waiving the applicability of any post-default increase in interest rates) thereon or Fees hereunder,

(iii) reduce or waive the principal amount of any Loan or of any reimbursement obligation, or any portion thereof, arising from drawings under Letters of Credit,

(iv) increase the Commitment of a Lender over the amount thereof in effect (it being understood and agreed that a waiver of any Default or Event of Default or mandatory reduction in the Commitments shall not constitute a change in the terms of any Commitment of any Lender),

(v) release (i) any Borrower, or (ii) except as permitted by Section 8.17, any other Credit Party, from its or their obligations under the Credit Documents,

(vi) amend, modify or waive any provision of this Section 11.6 or 3.13, 3.14, 3.15(b), 9.1(a), 11.2, 11.5 or 11.9,

(vii) reduce any percentage specified in, or otherwise modify, the definition of Required Lenders and Supermajority Lenders, or

(viii) consent to the assignment or transfer by any Borrower (or another Credit Party) of any of its rights and obligations under (or in respect of) the Credit Documents except as permitted thereby;

(b) without the consent of the Supermajority Lenders, no provision of Section 7.11(a) or the definitions utilized therein may be amended, modified, supplemented or deleted;

(c) without the consent of the Administrative Agent, no provision of Section 10 may be amended, modified, supplemented or deleted; and

(d) without the consent of the Issuing Lender, no provision of Section 2.3 may be amended modified, supplemented or deleted.

Notwithstanding the fact that the consent of all the Lenders is required in certain circumstances as set forth above, (x) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code supersedes the unanimous consent provisions set forth herein and (y) the Required Lenders may consent to allow a Credit Party to use cash collateral in the context of a bankruptcy or insolvency proceeding.

The Administrative Agent shall have the exclusive authority to release any Guarantor disposed of by a Credit Party in accordance with the terms of Section 8.17 and shall, upon the written request of the Borrowers, release any such Guarantor upon the disposition thereof if such Guarantor is permitted to be disposed of pursuant to Section 8.17. The Administrative Agent shall give notice to each Lender promptly upon any release of a Guarantor pursuant to the terms of this Section 11.6.

11.7 Counterparts .

This Credit Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Credit Agreement to produce or account for more than one such counterpart for each of the parties hereto. Delivery by facsimile by any of the parties hereto of an executed counterpart of this Credit Agreement shall be as effective as an original executed counterpart hereof and shall be deemed a representation that an original executed counterpart hereof will be delivered.

11.8 Headings .

The headings of the sections and subsections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Credit Agreement.

11.9 Survival .

All indemnities set forth herein, including, without limitation, in Section 2.2(h), 3.11, 3.12, 10.5 or 11.5 shall survive the execution and delivery of this Credit Agreement, the making of the Loans, the issuance of the Letters of Credit, the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder, and all representations and warranties made by the Credit Parties herein shall survive delivery of the Notes and the making of the Loans hereunder.

11.10 Governing Law; Submission to Jurisdiction; Venue .

(a) THIS CREDIT AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA. Any legal action or proceeding with respect to this Credit Agreement or any other Credit Document may be brought in the courts of the State of North Carolina in Mecklenburg County, or of the United States for the Western District of North Carolina, and, by execution and delivery of this Credit Agreement, each of the Credit Parties hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the nonexclusive jurisdiction of such courts. Each of the Credit Parties further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address set out for notices pursuant to Section 11.1, such service to become effective three (3) days after such

mailing. Nothing herein shall affect the right of the Administrative Agent or any Lender to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against any Credit Party in any other jurisdiction.

(b) Each of the Credit Parties hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Credit Agreement or any other Credit Document brought in the courts referred to in subsection (a) above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(c) TO THE EXTENT PERMITTED BY LAW, EACH OF THE ADMINISTRATIVE AGENT, THE LENDERS, THE BORROWERS AND THE CREDIT PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS CREDIT AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.11 Severability .

If any provision of any of the Credit Documents is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

11.12 Entirety .

This Credit Agreement together with the other Credit Documents represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Credit Documents or the transactions contemplated herein and therein.

11.13 Binding Effect; Termination .

(a) This Credit Agreement shall become effective at such time when all of the conditions set forth in Section 5.1 have been satisfied or waived by the Lenders and it shall have been executed by the Borrowers, the Guarantors and the Administrative Agent, and the Administrative Agent shall have received copies hereof (telefaxed or otherwise) which, when taken together, bear the signatures of each Lender, and thereafter this Credit Agreement shall be binding upon and inure to the benefit of the Borrowers, the Guarantors, the Administrative Agent and each Lender and their respective successors and assigns.

(b) The term of this Credit Agreement shall be until no Loans, LOC Obligations or any other amounts payable hereunder or under any of the other Credit Documents shall remain outstanding, no Letters of Credit shall be outstanding, all of the Credit Party Obligations have been irrevocably satisfied in full and all of the Commitments hereunder shall have expired or been terminated.

11.14 Confidentiality .

Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners); (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any Loan Document or the enforcement of rights hereunder or thereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations

under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or to any credit derivative transaction relating to the Credit Parties and their obligations; (g) with the consent of the Borrower; and (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Credit Parties. For purposes of this Section, “Information” means all information received from any Credit Party relating to any Credit Party or any of their respective business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by any Credit Party; provided that, in the case of information received from a Credit Party after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. Notwithstanding anything herein to the contrary, “Information” shall not include, and the Administrative Agent and each Lender (and each employee, representative, or other agent of the Administrative Agent and each Lender) may disclose to any and all Persons without limitation of any kind, any information with respect to the “tax treatment” and “tax structure” (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including options or other tax analyses) that are provided to the Administrative Agent or such Lender (and each employee, representative, or other agent of the Administrative Agent or such Lender) relating to such tax treatment and tax structure; provided, that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Loans, Letters of Credit and other transactions contemplated hereby.

11.15 Conflict .

To the extent that there is a conflict or inconsistency between any provision hereof, on the one hand, and any provision of any Credit Document, on the other hand, this Credit Agreement shall control.

11.16 Amendment and Restatement; No Novation .

THE PARTIES HERETO HAVE ENTERED INTO THIS AGREEMENT SOLELY TO AMEND AND RESTATE THE TERMS OF THE 2000 CREDIT AGREEMENT. THE PARTIES DO NOT INTEND THIS AGREEMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AGREEMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY OF THE CREDIT PARTIES UNDER OR IN CONNECTION WITH THE 2000 CREDIT AGREEMENT OR ANY OF THE OTHER CREDIT DOCUMENTS (AS DEFINED IN THE 2000 CREDIT AGREEMENT).

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Credit Agreement to be duly executed and delivered as of the date first above written.

BORROWERS:

HIGHWOODS REALTY LIMITED PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS SERVICES, INC.

HIGHWOODS FINANCE, LLC

By: HIGHWOODS PROPERTIES, INC.

HIGHWOODS/TENNESSEE HOLDINGS, L.P.

By: HIGHWOODS/TENNESSEE PROPERTIES, INC.

By: /s/ Ronald P. Gibson

Name: Ronald P. Gibson

Title: President and Chief Executive Officer

(Signatures continued on next page)

GUARANTORS:

HIGHWOODS/FLORIDA GP CORP.
HIGHWOODS/TENNESSEE PROPERTIES, INC.
HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

PINELLAS NORTHSIDE PARTNERS, LTD.

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

RED RUN ASSOCIATES LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

WINSTON-SALEM INDUSTRIAL, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

TAMPA TECH PRESERVE, LLC

By: 581 Highwoods, L.P.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

MARLEY CONTINENTAL HOMES OF KANSAS, L.L.C.

By: Highwoods Properties, Inc.

500 NORTHRIDGE INDUSTRIAL, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

3920 WESTPOINT INDUSTRIAL, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

SOUTHWIND LAND HOLDINGS, LLC

By: AP Southeast Portfolio Partners, L.P.

By: AP-GP Southeast Portfolio Partners, L.P.

By: Highwoods Realty GP Corp.

AP-GP SOUTHEAST PORTFOLIO PARTNERS, L.P.

By: Highwoods Realty GP Corp.

AP SOUTHEAST PORTFOLIO PARTNERS, L.P.

By: AP-GP Southeast Portfolio Partners, L.P.

By: Highwoods Realty GP Corp.

HIGHWOODS REALTY GP CORP.

3929 WESTPOINT INDUSTRIAL, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

PINELLAS BAY VISTA PARTNERS, LTD.

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

(Signatures continued on next page)

DOWNTOWN CLEARWATER TOWER, LTD.

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

SISBROS, LTD.

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

SHOCKOE PLAZA INVESTORS, L.C.

By: HIGHWOODS REALTY LIMITED

PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

RC ONE LLC

By: HIGHWOODS SERVICES, INC.

HPI TITLE AGENCY, LLC

By: HIGHWOODS REALTY LIMITED

PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

ALAMEDA TOWERS DEVELOPMENT

COMPANY

CHALLENGER, INC

GUARDIAN MANAGEMENT, INC .

HIGHWOODS/CYPRESS COMMONS LLC

By: AP SOUTHEAST PORTFOLIO PARTNERS, L.P.

By: AP-GP SOUTHEAST PORTFOLIO PARTNERS,
L.P.

By: HIGHWOODS REALTY GP CORP.

HIGHWOODS/INTERLACHEN HOLDINGS, L.P.

By: HIGHWOODS/ FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

4600 COX ROAD LLC

By: HIGHWOODS/ FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

PLAZA GIFT CARD, LLC

By: HIGHWOOD SERVICES, INC.

HIGHWOODS NON-ORLANDO, LLC

By: HIGHWOODS REALTY LIMITED

PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HIGHWOODS CONSTRUCTION SERVICES, LLC

By: HIGHWOOD SERVICES, INC.

(Signatures continued on next page)

HIGHWOODS DLF, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HIGHWOODS DLF II, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

PAPEC RICHMOND II, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

PAPEC WESTON I, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

PAPEC WESTON II, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

PAPEC WESTON III, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HARBORVIEW PLAZA, LLC

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA, GP CORP.

SPI BROOKFIELD I, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI BROOKFIELD II, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI BUSINESS HOLDINGS, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI CENTURY PLAZA III, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI JEFFERSON VILLAGE, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI TRADEPORT OFFICE III, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

(Signatures continued on next page)

SPI RALEIGH CORPORATE CENTER, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HIGHWOODS COLONNADE, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

SPI TRADEPORT PLACE V, LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

HIWTP, LLC

By: HIGHWOODS SERVICES, INC.

HIGHWOODS INDUSTRIAL VIRGINIA, LLC

By: HIGHWOODS SERVICES, INC.

**HIGHWOODS INDUSTRIAL NORTH CAROLINA,
LLC**

By: HIGHWOODS SERVICES, INC.

GROVE PARK SQUARE, LLC

By: HIGHWOODS SERVICES, INC.

HIGHWOODS WELLNESS CENTER, LLC

By: HIGHWOODS SERVICES, INC.

HIGHWOODS 3322, LLC

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

NICHOLS PLAZA WEST, INC.

OZARK MOUNTAIN VILLAGE, INC.

4551 COX ROAD LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

581 HIGHWOODS, L.P.

By: HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

By: /s/ Ronald P. Gibson

Name: Ronald P. Gibson

Title: President and Chief Executive Officer

[signature pages continued]

LENDERS/AGENTS :

BANK OF AMERICA, N.A.,
individually in its capacity as a Lender
and in its capacity as Administrative Agent

By: /s/ Ronald Odlozil

Name: Ronald Odlozil

Title: Principal

BANC OF AMERICA SECURITIES LLC,
individually in its capacity as Sole Lead Arranger and Sole Book Manager

By: /s/ Wesley G. Carter

Name: Wesley G. Carter

Title: Vice President

[signature pages continued]

WELLS FARGO BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender
and in its capacity as Syndication Agent

By: /s/ John S. Misiura

Name: John S. Misiura

Title: Vice President

[signature pages continued]

BRANCH BANKING AND TRUST COMPANY
individually in its capacity as a Lender
and as a Co-Documentation Agent

By: /s/ Holger B. Ebert

Name: Holger B. Ebert

Title: Senior Vice President

[signature pages continued]

FLEET NATIONAL BANK
individually in its capacity as a Lender
and as a Co-Documentation Agent

By: /s/ Kathleen M. Ahern

Name: Kathleen M. Ahern

Title: Director

[signature pages continued]

WACHOVIA BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender

By: /s/ David Hoagland

Name: David Hoagland

Title: Vice President

[signature pages continued]

PNC BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender

By: /s/ William R. Lynch III

Name: William R. Lynch III

Title: Senior Vice President

[signature pages continued]

AMSOUTH BANK
individually in its capacity as a Lender

By: /s/ Lee Surtees

Name: Lee Surtees

Title: Commercial Banking Officer

[signature pages continued]

SOUTHTRUST BANK
individually in its capacity as a Lender

By: /s/ Sidney Clapp

Name: Sidney Clapp

Title: Assistant Vice President

[signature pages continued]

RBC CENTURA BANK
individually in its capacity as a Lender

By: /s/ Robert E. Hammersley, Jr. _____

Name: Robert E. Hammersley, Jr. _____

Title: Bank Officer _____

[signature pages continued]

UNION PLANTERS BANK
individually in its capacity as a Lender

By: /s/ James R. Gummel

Name: James R. Gummel

Title: Senior Vice President

[end of signature pages]

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Ronald P. Gibson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highwoods Properties Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) for the Registrant and we have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 7, 2003

/s/ RONALD P. GIBSON

Ronald P. Gibson
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Carman J. Liuzzo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highwoods Properties Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) for the Registrant and we have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 7, 2003

/s/ C ARMAN J. L IUZZO

Carman J. Liuzzo
Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2003 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. § 1350, as adopted pursuant to § 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/ R ONALD P. G IBSON

Ronald P. Gibson
President and Chief Executive Officer
August 7, 2003

Exhibit 32.2

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2003 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. § 1350, as adopted pursuant to § 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/ C ARMAN J. L IUZZO

Carman J. Liuzzo
Vice President and Chief Financial Officer
August 7, 2003

End of Filing

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