

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1997

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)

Registrant's telephone number, including area code:

(919) 872-4924

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐ The Company has only one class of common stock, par value \$.01 per share, with 36,042,356 shares outstanding as of August 8, 1997.

HIGHWOODS PROPERTIES, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 1997
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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The information furnished in the accompanying balance sheets, statements of operations and statements of cash flows reflect all adjustments that are, in the opinion of management, 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 and the 1996 Annual Report on Form 10-K of Highwoods Properties, Inc. (the "Company").

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
ASSETS		
Real estate assets, at cost:		
Land and improvements.....	\$ 227,277	\$ 219,539
Buildings and tenant improvements.....	1,408,436	1,152,990
Development in process.....	49,488	28,858
Land held for development.....	39,119	17,551
Furniture, fixtures and equipment.....	2,493	2,096
	1,726,813	1,421,034
Less -- accumulated depreciation	(62,062)	(43,160)
Net real estate assets.....	1,664,751	1,377,874
Cash and cash equivalents.....	8,904	11,070
Restricted cash.....	9,721	8,539
Accounts receivable.....	10,444	9,039
Advances to subsidiaries.....	3,634	2,406
Accrued straight line rents receivable.....	8,682	6,185
Other assets:		
Deferred leasing costs.....	13,829	9,601
Deferred financing costs.....	21,676	21,789
Prepaid expenses and other.....	5,762	3,901
	41,267	35,291
Less -- accumulated amortization.....	(9,865)	(6,964)
	31,402	28,327
	\$1,737,538	\$ 1,443,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable.....	\$ 647,473	\$ 555,876
Accounts payable, accrued expenses and other liabilities.....	28,211	27,600
Total liabilities.....	675,684	583,476
Minority interest.....	171,759	89,617
Stockholders' equity:		
Preferred stock \$.01 par value, authorized 10,000,000 shares; issued and outstanding 125,000 shares of 8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference of \$1,000 per share) at June 30, 1997.....	125,000	--
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 35,931,307 at June 30, 1997 and 35,636,155 at December 31, 1996.....	364	356
Additional paid-in capital.....	783,437	780,562
Distributions in excess of net income.....	(18,706)	(10,571)
Total stockholders' equity.....	890,095	770,347
	\$1,737,538	\$ 1,443,440

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED AND IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
REVENUE:				
Rental property.....	\$59,423	\$26,905	\$115,478	\$50,290
Interest and other income.....	1,815	775	4,081	1,147
	61,238	27,680	119,559	51,437
OPERATING EXPENSES:				
Rental property.....	16,246	7,041	31,588	13,195
Depreciation and amortization.....	10,590	4,182	19,900	7,898
Interest expense:				
Contractual.....	11,056	4,705	22,516	8,247
Amortization of deferred financing costs.....	547	418	1,122	827
	11,603	5,123	23,638	9,074
General and administrative.....	2,204	1,200	4,284	2,134
Income before minority interest and extraordinary item.....	20,595	10,134	40,149	19,136
MINORITY INTEREST.....	(3,295)	(1,753)	(6,424)	(3,324)
Income before extraordinary item.....	17,300	8,381	33,725	15,812
EXTRAORDINARY ITEM -- LOSS ON EARLY EXTINGUISHMENT OF DEBT.....	--	--	(3,337)	--
Net income.....	17,300	8,381	30,388	15,812
Dividends on 8 5/8% Series A Cumulative Redeemable Preferred Shares.....	(2,695)	--	(4,102)	--
Net income available for common stockholders.....	\$14,605	\$ 8,381	\$ 26,286	\$15,812
NET INCOME (LOSS) PER COMMON SHARE:				
Income before extraordinary item.....	\$ 0.41	\$ 0.42	\$ 0.84	\$ 0.80
Extraordinary item -- loss on early extinguishment of debt.....	--	--	(0.10)	--
Net income.....	\$ 0.41	\$ 0.42	\$ 0.74	\$ 0.80
Weighted average shares outstanding.....	35,824	20,022	35,375	19,714

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30, 1997	1996
OPERATING ACTIVITIES:		
Net income.....	\$ 30,388	\$ 15,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	21,022	8,725
Minority interest in income.....	5,788	3,324
Loss on early extinguishment of debt.....	3,973	--
Changes in operating assets and liabilities.....	(6,364)	(353)
Net cash provided by operating activities.....	54,807	27,508
INVESTING ACTIVITIES:		
Additions to real estate assets.....	(85,097)	(66,330)
Proceeds from disposition of real estate assets.....	--	900
Cash paid in exchange for partnership net assets.....	(5,081)	--
Other.....	(7,847)	(2,148)
Net cash used in investing activities.....	(98,025)	(67,578)
FINANCING ACTIVITIES:		
Distributions paid.....	(39,389)	(20,912)
Payment of preferred dividends.....	(1,407)	--
Repayment of mortgages and notes payable.....	(161,637)	(73,105)
Payment of prepayment penalties.....	(3,973)	--
Borrowings on mortgages and notes payable.....	124,000	62,500
Net proceeds from the sale of common stock.....	1,815	292,858
Net proceeds from sale of 8 5/8% Series A Cumulative Redeemable Preferred Shares.....	121,804	--
Payment of deferred financing costs.....	(161)	(953)
Net cash provided by financing activities.....	41,052	260,388
Net (decrease) increase in cash and cash equivalents.....	(2,166)	220,318
Cash and cash equivalents at beginning of the period.....	11,070	6,838
Cash and cash equivalents at end of the period.....	\$ 8,904	\$ 227,156
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 23,189	\$ 8,179

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

The following summarizes the net assets contributed by the unit holders of the Highwoods/Forsyth Limited Partnership (the "Operating Partnership") or acquired subject to mortgage notes payable:

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
ASSETS:		
Rental property and equipment, net.....	\$214,497	\$70,153
LIABILITIES:		
Mortgages and notes payable assumed.....	129,270	41,927
Net assets.....	\$ 85,227	\$28,226

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1997
(UNAUDITED)

1. BASIS OF PRESENTATION The consolidated financial statements include the accounts of Highwoods Properties, Inc. (the "Company"), Highwoods/Forsyth Limited Partnership (the "Operating Partnership") and the following subsidiaries:

Highwoods/Florida GP Corp.

Highwoods Realty GP Corp.

Highwoods/Tennessee Properties, Inc.

Highwoods/Florida Holdings GP, L.P.

AP-GP Southeast Portfolio Partners, L.P. Highwoods/Tennessee Holdings GP, L.P.

Highwoods/Tennessee Holdings, L.P.

AP Southeast Portfolio Partners, L.P.

Highwoods/Florida Holdings, L.P.

Forsyth Properties Services, Inc.

Highwoods Services, Inc.

Southeast Realty Options Corp.

The Company's investment in Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies") is accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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

The Company has elected and expects to continue to qualify as a real estate investment trust ("REIT") under Section 856 through 860 of the Internal Revenue Code of 1986, as amended.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, EARNINGS PER SHARE, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for these quarters is not material. Minority interest in the Company represents the limited partnership interests ("Common Units") owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns substantially all of the Company's properties and 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 outstanding (including common share equivalents).

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 the financial position, results of operations and cash flows of the Company have been made. For further information, refer to the financial statements and notes thereto included in the Company's 1996 Annual Report on Form 10-K.

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. The following discussion is based primarily on the consolidated financial statements of Highwoods Properties, Inc.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1997

Revenues from rental operations increased \$32.5 million, or 121%, from \$26.9 million for the three months ended June 30, 1996 to \$59.4 million for the comparable period in 1997. The increase is primarily a result of the acquisition of 6.4 million square feet of office and industrial properties and the completion of 763,000 square feet of development activity during the third and fourth quarters of 1996 and the addition of 3.2 million square feet in the first quarter of 1997 from the acquisition of the Anderson Properties and Century Center portfolios. The Company's portfolio increased from 10.4 million square feet at June 30, 1996 to 21.6 million square feet at June 30, 1997. Same property revenues, which are the revenues of the 199 in-service properties owned on April 1, 1996, increased 1% for the three months ended June 30, 1997, compared to the same three months of 1996. Expected vacancies in two of the Company's properties offset a 2% increase in the revenues of the other 197 in-service properties.

During the three months ended June 30, 1997, 205 leases representing 1,164,000 square feet of office and industrial space commenced at an average rate per square foot which was 9.2% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$1.0 million from \$800,000 for the three months ended June 30, 1996 to \$1.8 million for the comparable period in 1997. The increase is related to the receipt of \$800,000 in lease termination fees and other miscellaneous property income in the second quarter of 1997 and an increase in interest income resulting from additional cash available for investment in 1997.

Rental operating expenses increased \$9.2 million, or 131%, from \$7.0 million for the three months ended June 30, 1996 to \$16.2 million for the comparable period in 1997. The increase is a result of the addition of 10.2 million square feet through a combination of acquisitions and developments during the last two quarters of 1996 and the first two quarters of 1997. Rental operating expenses as a percentage of related revenues increased from 26.2% for the three months ended June 30, 1996 to 27.3% for the comparable period in 1997. This increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the three months ended June 30, 1997 and 1996 was \$10.6 million and \$4.2 million, respectively. The increase of \$6.4 million, or 152%, is due to a 158% average increase in depreciable assets. Interest expense increased \$6.5 million, or 127%, from \$5.1 million for the three months ended June 30, 1996 to \$11.6 million for the comparable period in 1997. The increase is attributable to the 201% average increase in outstanding debt for the quarter related to the Company's acquisition activities, which was partially offset by lower interest rates on the Company's outstanding debt. Interest expense for the three months ended June 30, 1997 and 1996 included \$547,000 and \$418,000, respectively, of amortization of non-cash deferred financing costs and the costs related to the Company's interest rate protection agreements. General and administrative expenses decreased from 4.5% of rental revenue for the three months ended June 30, 1996 to 3.7% for the comparable period in 1997. The decrease is attributable to the realization of the economies of scale related to the acquisition of the 5.7-million square foot Crocker portfolio, which was completed in September 1996.

Net income before minority interest and extraordinary item equaled \$20.6 million and \$10.1 million for the three-month periods ended June 30, 1997 and 1996, respectively. The Company's net income allocated to minority interest totaled \$3.3 million and \$1.8 million for the three-month periods ended June 30, 1997 and 1996, respectively. The Company accrued \$2.7 million in dividends in the second quarter of 1997 for the 125,000 shares of preferred stock that the Company issued in February 1997 (see " -- Liquidity and Capital Resources" below).

SIX MONTHS ENDED JUNE 30, 1997

Revenue from rental operations increased \$65.2 million or 130%, from \$50.3 million for the six months of 1996 to \$115.5 million for the six months of 1997. The increase is a result of the Company's acquisition and development activity in 1996 and 1997. In total, 103 office and industrial properties encompassing 8.2 million square feet were added in 1996 and 68 properties encompassing 4.1 million square feet were added in the first six months of 1997.

During the six months ended June 30, 1997, 372 leases representing 2,516,000 square feet of office and industrial space commence at an average rate per square foot 7.2% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$3.0 million from \$1.1 million in 1996 to \$4.1 million in 1997. The increase is related to the receipt of \$1.6 million in lease termination fees and other miscellaneous property income in the first six months of 1997, a full six months of third-party management fees derived from the management contracts assumed in the merger with Eakin & Smith, Inc. on April 1, 1996 and an increase in interest income resulting from additional cash available for investment in 1997.

Rental operating expenses increased \$18.4 million, or 139%, from \$13.2 million in 1996 to \$31.6 million in 1997. Rental expenses as a percentage of related rental revenues increased from 26.2% in 1996 to 27.3% in 1997. The increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the six months ended June 30, 1997, and 1996 was \$19.9 million and \$7.9 million, respectively. The increase of \$12.0 million, or 152% is due to a 139% average increase in depreciable assets. Interest expense increased \$14.5 million or 159%, from \$9.1 million in 1996 to \$23.6 million in 1997. The increase is attributable to a 203% average increase in outstanding debt related to the Company's acquisition activities. Interest expense for the six months ended June 30, 1997, and 1996 included \$1.1 million and \$827,000, respectively, of amortization of non-cash deferred financing costs and of the costs related to the Company's interest rate protection agreement. General and administrative expenses decreased from 4.2% of total rental revenue in 1996 to 3.7% in 1997. This decrease is attributable to the realization of the economies of scale related to the acquisition of the 5.7 million-square foot Crocker portfolio, which was completed in September 1996.

Net income before minority interest and extraordinary item equaled \$40.1 million and \$19.1 million for the six-month periods ended June 30, 1997, and 1996, respectively. The Operating Partnership's net income allocated to the minority interest totaled \$6.4 million and \$3.3 for 1997 and 1996, respectively. The Company incurred an extraordinary loss in the first quarter of 1997 of \$3.3 million related to the early extinguishment of debt assumed in the acquisition of the Anderson Properties and Century Center portfolios. The Company also recorded \$4.1 million in dividends on the 125,000 shares of preferred stock for the six months ended June 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 1997, cash provided by operating activities increased by \$27.3 million, or 99%, to \$54.8 million, as compared to \$27.5 million for the same period in 1996. The increase is primarily due to the increase in net income resulting from the Company's property acquisitions in 1996 and the first quarter of 1997. Cash used for investing activities increased by \$30.4 million, or 45.0%, to \$98.0 million for the first six months of 1997, as compared to \$67.6 million for the same 1996 period. The increase is attributable to the Company's ongoing acquisition and development of suburban office and industrial properties. Cash provided by financing activities decreased by \$219.3, or 84.2%, to \$41.1 million for the first six months of 1997, as compared to \$260.4 million for the same period in 1996. During the first six months of 1997, cash provided by financing activities consisted, primarily, of \$121.8 million in net proceeds from the sale of preferred stock and the sale of \$100 million of Exercisable Put Option Securities (see below), which were offset by net payments of \$56.6 million to reduce existing indebtedness and \$105 million to pay off the assumed indebtedness associated with the acquisition of the Century Center and Anderson Properties portfolios. Additionally, payments of distributions increased by \$18.5 million to \$39.4

million for the first six months of 1997, as compared with \$20.9 million for the same period in 1996. The increase is due to the greater number of shares outstanding and a 7% increase in the distribution rate.

On February 12, 1997, the Company issued 125,000 shares of 8 5/8% Series A Cumulative Redeemable Preferred Shares for net proceeds of \$121.8 million. The shares of preferred stock have a liquidation preference of \$1,000 per share, are not redeemable prior to February 2027, are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of the Company.

On June 24, 1997, a trust formed by the Operating Partnership sold \$100 million of Exercisable Put Option Securities ("X-POSSM"), which represent fractional undivided beneficial interests in the trust. The assets of the trust consist of, among other things, \$100 million of Exercisable Put Option Notes due June 15, 2011 issued by the Operating Partnership (the "Put Option Notes"). The X-POSSM bear a coupon interest rate of 7.19% and mature on June 15, 2004, representing an effective borrowing cost of 7.09%, net of a related put option and certain interest rate protection agreement costs. Under certain circumstances, the Put Option Notes could also become subject to early maturity on June 15, 2004. The X-POSSM financing structure enabled the Operating Partnership to obtain a more favorable rate than that available under traditional unsecured or put bond securities. Proceeds from the offering will be used to reduce outstanding mortgages and notes payable with an average interest rate of 8.50% and to repay amounts outstanding on the Company's existing revolving credit facility.

Effective May 27, 1997, the Company's syndicate of lenders lowered the interest rate to 100 basis points over LIBOR (from the previous rate of 135 basis points over LIBOR), on the Company's \$280 million revolving loan.

The Company's total indebtedness at June 30, 1997, totaled \$647.5 million and was comprised of \$315.5 million of secured indebtedness with an average rate of 8.3% and \$332.0 million of unsecured indebtedness with an average rate of 7.0%. All of the mortgage and notes payable outstanding at June 30, 1997 were either fixed rate obligations or variable rate obligations covered by interest rate protection agreements.

Based on the Company's total market capitalization of \$2.2 billion at June 30, 1997, (at the June 30, 1997 stock price of \$32.19 and assuming the redemption for shares of Common Stock of the 6,970,000 Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 30% of its total market capitalization.

To protect the Company from increases in interest expense due to changes in the variable rate, the Company: (i) purchased an interest rate collar limiting its exposure to an increase in interest rates (one-month LIBOR plus 100 basis points) to 7.25% with respect to \$80 of the Company's \$280 million unsecured revolving loan (the "Revolving Loan"), under which the Company had \$0 outstanding at June 30, 1997, and (ii) entered into interest rate swaps that limit its exposure to an increase in the interest rates to 7.24% in connection with the \$34 million of variable rate mortgages. The interest rate on all such variable rate debt is adjusted at monthly intervals, subject to the Company's interest rate protection program. No payments were received from the counterparties under the interest rate protection agreements for the three months ended June 30, 1997 and 1996. The Company is exposed to certain losses in the event of non-performance by the counterparties under the cap and swap arrangements. The counterparties are major financial institutions and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under the Revolving Loan and the variable rate mortgages, even if such rate were in excess of the rate in the cap and swap agreements. In addition, the Company may incur other variable rate indebtedness in the future. Increases in interest rates on its indebtedness could increase the Company's interest expense and could adversely affect the Company's cash flow.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. The Company presently has no plans for major capital improvements to the existing properties, other than normal recurring non-revenue enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the Revolving Loan. The Company expects to meet certain of its financing requirements through long-term

secured and unsecured borrowings and the issuance of debt securities or additional equity securities of the Company and Operating Partnership. In addition, the Company anticipates utilizing the Revolving Loan primarily to fund construction and development activities. The Company does not intend to reserve funds to retire existing mortgage indebtedness or indebtedness under the Revolving Loan upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities. The Company anticipates that its available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet the capital and liquidity needs of the Company in both the short and long-term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions discussed below may be adversely affected.

In order to qualify as a REIT for Federal income tax purposes, the Company is required to make distributions to its stockholders of at least 95% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The Company intends to invest amounts accumulated for distribution in short-term investments. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (i) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (ii) scheduled increases in base rents of existing leases; (iii) changes in rents attributable to the renewal of existing leases or replacement leases; (iv) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (v) operating expenses and capital replacement needs.

FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS The Company considers Funds from Operations ("FFO") to be a useful financial performance measure of its operating performance because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate its ability to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operations as defined by GAAP, and FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all of the Company's cash needs including principal amortization, capital improvements and distributions to stockholders. FFO does not represent cash flows from operating, investing or financing activities as defined by GAAP. Further, FFO as disclosed by other REITs may not be comparable to the Company's calculation of FFO, as described below.

FFO is defined as net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. Cash available for distribution is defined as funds from operations reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

Funds from operations and cash available for distribution for the three and six months ended June 30, 1997 and 1996 are summarized in the following table (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
FUNDS FROM OPERATIONS:				
Income before minority interest and extraordinary item.....	\$20,595	\$10,134	\$40,149	\$19,136
Add (deduct):				
Dividends to preferred shareholders.....	(2,695)	--	(4,102)	--
Depreciation and amortization.....	10,590	4,182	19,900	7,898
Third-party service company cash flow.....	--	105	--	255
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST.....	28,490	14,421	55,947	27,289
CASH AVAILABLE FOR DISTRIBUTION:				
Add (deduct):				
Rental income from straight-line rents.....	(1,245)	(499)	(2,475)	(915)
Amortization of deferred financing costs.....	547	418	1,122	827
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid.....	(938)	(726)	(2,008)	(1,200)
Second generation tenant improvements paid.....	(2,076)	(558)	(3,447)	(1,308)
Second generation lease commissions paid.....	(1,243)	(467)	(2,334)	(579)
CASH AVAILABLE FOR DISTRIBUTION.....	\$23,535	\$12,589	\$46,805	\$24,114
Weighted average shares/Common Units outstanding (2).....	42,750	24,206	42,254	23,673
DIVIDEND PAYOUT RATIO:				
Funds from operations.....	72.0%	75.5%	72.5%	78.1%
Cash available for distribution.....	87.2%	86.5%	86.7%	88.4%

(1) Amounts represent cash expenditures.

(2) Assumes redemption of Common Units for shares of Common Stock. Minority interest Common Unit holders and the stockholders of the Company share equally on a per share and per Common Unit basis; therefore, the resultant per share information is unaffected by the conversion. On July 29, 1997, the Company's Board of Directors declared a dividend of \$.51 per share (\$2.04 on an annualized basis) payable on August 20, 1997 to stockholders of record on August 8, 1997.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS This Report contains forward-looking statements within the meaning of

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are identified by words such as "expect," "anticipate," "should" and words of similar import. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

PROPERTY INFORMATION

The following table sets forth certain information with respect to the Company's properties as of June 30, 1997:

	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
IN-SERVICE:			
Office.....	14,439,000	223	94%
Industrial.....	7,144,000	138	90%
Total.....	21,583,000	361	93%
UNDER DEVELOPMENT:			
Office.....	1,802,000	21	38%
Industrial.....	487,000	5	40%
Total.....	2,289,000	26	38%
TOTAL:			
Office.....	16,241,000	244	
Industrial.....	7,631,000	143	
Total.....	23,872,000	387	

The following table sets forth certain information with respect to the Company's properties under development as of June 30, 1997:

NAME	LOCATION	SQUARE FOOTAGE	BUDGETED COST	COST AT 6/30/97	PRE-LEASING PERCENTAGE	ESTIMATED COMPLETION
OFFICE:						
Ridgefield III	Asheville	57,000	\$ 5,200	\$ 14	0.0%	1Q98
2400 Century Center	Atlanta	135,000	16,200	207	0.0%	2Q98
Patewood VI	Greenville	107,000	11,400	2,451	0.0%	4Q98
Southwind III	Memphis	69,000	7,000	2,598	100.0%	4Q97
Colonnade	Memphis	89,000	9,400	2,047	44.0%	1Q98
SouthPointe	Nashville	104,000	10,900	2,004	0.0%	2Q98
Harpeth V	Nashville	65,000	6,900	1,093	0.0%	1Q98
Lakeview Ridge II	Nashville	61,000	6,100	768	0.0%	1Q98
Highwoods Plaza II	Nashville	103,000	10,400	5,733	100.0%	3Q97
RMIC	Piedmont Triad	90,000	7,700	32	100.0%	2Q98
Highwoods Center	Research Triangle	76,000	8,300	3	0.0%	3Q98
Overlook	Research Triangle	97,000	9,900	410	0.0%	3Q98
Red Oak	Research Triangle	65,000	6,000	399	0.0%	3Q98
Situs Two	Research Triangle	59,000	5,900	758	0.0%	3Q98
Rexwood V	Research Triangle	60,000	7,400	1,933	28.0%	4Q97
ClinTrials	Research Triangle	178,000	21,500	4,242	100.0%	2Q98
Highwoods V	Richmond	67,000	6,600	921	0.0%	2Q98
Markel-American	Richmond	106,000	10,600	120	48.0%	2Q98
Grove Park 1	Richmond	61,000	5,900	2,143	15.0%	3Q97
Highwoods Two	Richmond	76,000	7,300	4,958	77.0%	3Q97
West Shore III	Richmond	55,000	5,300	3,429	87.0%	3Q97
OFFICE TOTAL OR WEIGHTED AVERAGE.....		1,780,000	\$ 185,900	\$36,263	38.0%	
INDUSTRIAL PROPERTIES						
TradePort-1	Atlanta	87,000	3,100	1,262	0.0%	4Q97
TradePort-2	Atlanta	87,000	3,100	--	0.0%	4Q97
Newpoint	Atlanta	119,000	4,700	2,160	0.0%	3Q97
R.F. Micro Devices	Piedmont Triad	49,000	8,400	4,089	100.0%	4Q97
Highwoods Airport Center	Richmond	142,000	6,100	4,997	100.0%	3Q97
INDUSTRIAL TOTAL OR WEIGHTED AVERAGE.....		484,000	\$ 25,400	\$12,508	40.0%	
COMPANY TOTAL OR WEIGHTED AVERAGE.....		2,264,000	\$ 211,300	\$48,771	38.0%	

The following tables set forth certain information about the Company's leasing activities for the three and six months ended June 30, 1997.

	OFFICE		INDUSTRIAL	
	THREE MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1997	THREE MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1997
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:				
Number of lease transactions (signed leases).....	139	251	66	121
Rentable square footage leased.....	646,699	1,385,160	517,613	1,130,398
Average per rentable square foot over the lease term:				
Base rent.....	\$ 16.76	\$ 16.07	\$ 5.36	\$ 5.23
Tenant improvements.....	(0.85)	(0.97)	(0.23)	(0.21)
Leasing commissions.....	(0.50)	(0.45)	(0.14)	(0.15)
Rent concessions.....	(0.01)	(0.01)	--	--
Effective rent.....	\$ 15.40	\$ 14.64	\$ 4.99	\$ 4.87
Expense stop.....	(4.18)	(3.88)	(0.30)	(0.25)
Equivalent effective net rent.....	\$ 11.22	\$ 10.76	\$ 4.69	\$ 4.62
Average term in years.....	4	4	4	4
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:				
Tenant improvements:				
Total dollars committed under signed leases.....	\$2,163,050	\$5,845,282	\$450,875	\$ 844,673
Rentable square feet.....	646,699	1,385,160	517,613	1,130,398
Per rentable square foot.....	\$ 3.34	\$ 4.22	\$ 0.87	\$ 0.75
Leasing commissions:				
Total dollars committed under signed leases.....	\$1,279,100	\$2,704,953	\$273,473	\$ 581,260
Rentable square feet.....	646,699	1,385,160	517,613	1,130,398
Per rentable square foot.....	\$ 1.98	\$ 1.95	\$ 0.53	\$ 0.51
Total:				
Total dollars committed under signed leases.....	\$3,442,150	\$8,550,235	\$724,348	\$1,425,933
Rentable square feet.....	646,699	1,385,160	517,613	1,130,398
Per rentable square foot.....	\$ 5.32	\$ 6.17	\$ 1.40	\$ 1.26
RENTAL RATE TRENDS:				
Average final rate with expense pass throughs.....	\$ 14.15	\$ 13.85	\$ 4.81	\$ 4.98
Average first year cash rental rate.....	\$ 15.56	\$ 14.93	\$ 5.10	\$ 5.24
Percentage increase.....	9.96%	7.80%	6.03%	5.22%

The following tables set forth scheduled lease expirations for executed leases as of June 30, 1997 assuming no tenant exercises renewal options.

OFFICE PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1)	AVERAGE ANNUAL RENTAL RATE FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1997	264	935,786	7.0%	\$ 13,535,393	\$ 14.46	6.8%
1998	370	2,234,760	16.7	31,763,448	14.21	15.9
1999	349	1,816,663	13.5	26,791,104	14.75	13.4
2000	346	2,236,795	16.7	33,707,771	15.07	17.0
2001	245	1,932,678	14.4	31,370,340	16.23	15.7
2002	174	1,495,622	11.2	22,950,491	15.35	11.5
2003	48	881,484	6.6	12,748,402	14.46	6.4
2004	22	382,144	2.8	6,180,812	16.17	3.1
2005	16	449,289	3.3	4,919,152	10.95	2.5
2006	13	550,512	4.1	7,523,576	13.67	3.8
2007+	26	496,173	3.7	7,725,916	15.57	3.9
Total or average	1,873	13,411,906	100.0%	\$199,216,405	\$ 14.85	100.0%

INDUSTRIAL PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1)	AVERAGE ANNUAL RENTAL RATE FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1997	146	1,165,617	18.0%	\$ 5,918,185	\$5.08	17.2%
1998	157	1,230,918	19.0	7,001,490	5.69	20.3
1999	143	1,433,055	22.3	7,232,120	5.05	20.9
2000	91	990,004	15.3	5,958,163	6.02	17.3
2001	55	582,021	9.0	3,619,216	6.22	10.5
2002	28	779,372	12.0	3,164,340	4.06	9.2
2003	2	9,295	0.1	64,301	6.92	0.2
2004	6	112,069	1.7	619,202	5.53	1.8
2005	5	38,532	0.6	316,250	8.21	0.9
2006	1	127,600	2.0	575,476	4.51	1.7
2007+	0	--	0.0	--	--	0.0
Total or average	634	6,468,483	100.0%	\$ 34,468,743	\$5.33	100.0%

(1) Includes operating expense pass throughs and excludes the effect of future contractual rent increases.

INFLATION

Historically inflation has not had a significant impact on the Company's operations because of the relatively low inflation rate in the Company's geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of increased incremental operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, many of the leases are for terms of less than seven years, which may enable the Company to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

PART II -- OTHER INFORMATION

Item 1.	Legal Proceedings -- None
Item 2.	Changes in Securities -- None
Item 3.	Defaults Upon Senior Securities -- None
Item 4.	Submission of Matters to a Vote of Security Holders

On April 29, 1997, the Company held its Annual Meeting of Stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

MATTER	FOR	AGAINST	ABSTAIN
(A) Election of Directors			
Ronald P. Gibson	26,957,190	--	326,281
O. Temple Sloan, Jr.	26,973,090	--	310,381
John L. Turner	26,973,096	--	310,381
John W. Eakin	26,972,883	--	310,588
Willard H. Smith Jr.	26,982,590	--	300,881
Gene H. Anderson	26,973,090	--	310,381
(B) Proposal to adopt the 1997 Employee Stock Purchase Plan	26,324,354	714,825	244,293
(C) Proposal to amend the Amended and Restated 1994 Stock Option Plan	17,413,462	9,379,176	490,834
(D) Ratify appointment of Ernst & Young, LLP as Independent Auditors	27,067,059	16,777	199,636

Item 5. Other Information

On July 29, 1997, the partners of the Operating Partnership, through which the Company conducts substantially all of its operations, approved an amendment (the "Amendment") to its agreement of limited partnership. A copy of the Amendment is filed as an exhibit to this Form 10-Q. The following summary of the Amendment does not purport to be complete and is qualified by the Amendment to which reference is made for a full description of the Amendment.

The purpose of the Amendment is to clarify a limited partner's redemption right in the event of certain changes of control of the Company and enable limited partners to continue to hold Common Units in the Operating Partnership following such a change of control, thereby maintaining the tax basis in their Common Units.

The Amendment sets forth a limited partner's redemption right in the event of certain changes of control of the Company. The covered changes of control (each, a "Trigger Event") are: (i) a merger involving the Company in which the Company is not the surviving entity; (ii) a merger involving the Company in which the Company is the survivor but all or part of the Company's shares are converted into securities of another entity or the right to receive cash; and

(iii) the transfer by the Company to another entity of substantially all of the assets or earning power of the Company or the Operating Partnership. Upon occurrence of a Trigger Event, the rights of a limited partner to receive a share of the Company's common stock (a "REIT Share") or cash equal to the fair market value of a REIT Share upon redemption of a Common Unit is converted into the right to receive a share (a "Replacement Share") or cash equal to the fair market value thereof of the acquiror or a parent of the acquiror. If the acquiror does not have publicly traded securities and a parent of the acquiror does, the publicly traded equity securities of the parent entity with the highest market capitalization will be the Replacement Shares. If neither the acquiror nor any parent has publicly traded equity securities, the Replacement Shares will be the equity securities of the entity with the highest market capitalization. The number of Replacement Shares to be received by a limited partner (or to be used to calculate the cash payment due) upon a redemption of Common Units shall be equal to the number of REIT Shares issuable prior to the Trigger Event multiplied by (i) the number of Replacement Shares the holder of a single REIT Share would have received as a result of the Trigger Event or, if the Replacement Shares have not been publicly traded for one year,

(ii) a fraction, the numerator of which is the

Average Trading Price (as defined in the Amendment) of a REIT Share as of the Trigger Event and the denominator of which is the Average Trading Price of a Replacement Share as of the Trigger Event.

If the acquiror in a Trigger Event is a REIT, it must make provision to preserve an operating partnership structure with terms no less favorable to the limited partners than currently in place. In addition, the Amendment provides that, if a distribution of cash or property is made in respect of a Replacement Share, the Operating Partnership will distribute the same amount in respect of a Common Unit as would have been received by a limited partner had such partner's Common Units been redeemed for Replacement Shares prior to such distribution.

Because the Amendment requires an acquiror to make provision under certain circumstances to maintain the Operating Partnership structure and maintain a limited partner's right to continue to hold Common Units with future redemption rights, the Amendment could also have the effect of discouraging a third party from making an acquisition proposal for the Company.

The provisions of the Amendment may only be waived or amended upon the consent of limited partners holding at least 75% of the Common Units (excluding those held by the Company).

Item 6. Exhibits and Reports on Form 8-K -- None

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
10.1	Amendment to Amended and Restated Agreement of Limited Partnership of Highwoods/Forsyth Limited Partnership
27	Financial Data Schedule

(b) Reports on Form 8-K

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.

/s/ RONALD P. GIBSON
 RONALD P. GIBSON
 PRESIDENT AND CHIEF EXECUTIVE OFFICER
/s/ CARMAN J. LIUZZO
 CARMAN J. LIUZZO
 CHIEF FINANCIAL OFFICER
 (PRINCIPAL ACCOUNTING OFFICER)

Date: August 14, 1997

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
10.1	Amendment to Amended and Restated Agreement of Limited Partnership of Highwoods/Forsyth Limited Partnership
27	Financial Data Schedule

EXHIBIT 10.1

AMENDMENT OF FIRST AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF HIGHWOODS/FORSYTH LIMITED PARTNERSHIP

1. Section 11.2.A shall be deleted in its entirety and a new Section 11.2.A shall be inserted therefor to read as follows:

A. The General Partner may not transfer any of its General Partner Interest or Limited Partner Interests or withdraw as General Partner except as provided in Section 11.2.B or Article 16.

2. Section 11.2.C shall be deleted in its entirety and a new Section 11.2.C shall be inserted therefor to read as follows:

C. If the General Partner is the surviving entity of a merger, it shall contribute substantially all of the assets acquired in the merger to the Partnership as a Capital Contribution in exchange for Partnership Units with a fair market value, as reasonably determined by the General Partner, equal to the 704(c) Value of the assets so contributed; provided that this requirement shall not be applicable if such merger is a Trigger Event as defined in Section 16.

3. Section 11.2.D shall be deleted in its entirety.

4. The reference to Section 11.2.B set forth in Section 14.1.C shall be deleted.

5. A new Section 16 shall be inserted to read as follows:

ARTICLE 16 CONSOLIDATION, MERGER OR SALE OF ASSETS OF THE GENERAL PARTNER

SECTION 16.1 TRIGGERING EVENTS

For the purposes of this Article 16, each of the following events shall be deemed to be a "TRIGGERING EVENT": (w) if the General Partner consolidates with, or merges into, any other Person, and the General Partner is not the continuing or surviving corporation of such consolidation or merger, (x) if any Person consolidates with, or merges into, the General Partner, and the General Partner is the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding REIT Shares are converted into or exchanged for stock or other securities of any other Person or cash or any other property, or (y) if the General Partner sells or otherwise transfers (or one or more of its Subsidiaries sells or otherwise transfers) to any Person or Persons, in one or more transactions, substantially all of the assets or earning power of the General Partner or the Partnership.

SECTION 16.2 FROM AND AFTER THE OCCURRENCE OF A TRIGGERING EVENT

Effective on the date of each Triggering Event, the Redemption Right shall be adjusted as provided in this Section 16.2.

A. From and after the occurrence of a Triggering Event (each such occurrence, a "TRIGGER OCCURRENCE") and until the occurrence, if any, of a subsequent Triggering Event (in which case a further adjustment shall be made pursuant to this Section 16.2), each and every reference contained in this Agreement to a "REIT Share" or "REIT Shares" shall be deemed to be a reference to a share or shares, respectively (each, a "REPLACEMENT SHARE"; collectively, "REPLACEMENT SHARES"), of: (i) if, as a result of any Triggering Event, all of the REIT Shares are converted solely into Registered Common Stock (as hereinafter defined), such Registered Common Stock and (ii) in all other cases, the common stock, or, if such Person shall have no common stock, the equity securities or other equity interest having power to control or direct the management (the "COMMON STOCK") of (a) in the event of a Triggering Event described in clause (w) or (x) of the first sentence of Section 16.1, (1) the Person that is the issuer of any securities into which the REIT Shares are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer who has

the highest Market Capitalization (as hereinafter defined) and (2) if no securities are so issued, the Person that is the other party to such merger or consolidation, or if there is more than one such Person, the Person who has the highest Market Capitalization or (b) in the event of a Triggering Event described in clause (y) of the first sentence of Section 16.1, the Person that is the party receiving the largest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if the Person receiving the largest portion of the assets or earning power cannot be determined, whichever Person has the highest Market Capitalization; PROVIDED, HOWEVER, that in any such case, (1) if the Common Stock of such Person is not at such time and has not been continuously over the preceding 12-month period registered ("REGISTERED COMMON STOCK") under Section 12 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or such Person is neither a corporation nor a real estate investment trust, and such Person is a direct or indirect Subsidiary of another Person that has Registered Common Stock outstanding, "Replacement Shares" shall mean shares of the Common Stock of such other Person; (2) if the Common Stock of such Person is not Registered Common Stock or such Person is neither a corporation nor a real estate investment trust, and such Person is a direct or indirect Subsidiary of another Person but is not a direct or indirect Subsidiary of another Person which has Registered Common Stock outstanding, "Replacement Shares" shall mean shares of the Common Stock of the parent entity having the highest Market Capitalization; (3) if the Common Stock of such Person is not Registered Common Stock or such Person is neither a corporation nor a real estate investment trust, and such Person is directly or indirectly controlled by more than one Person, and one of such other Persons has Registered Common Stock outstanding, "Replacement Shares" shall mean shares of the Common Stock of whichever of such other Persons is the issuer having the highest Market Capitalization; and (4) if the Common Stock of such Person is not Registered Common Stock or such Person is neither a corporation nor a real estate investment trust, and such Person is directly or indirectly controlled by more than one Person, and none of such other Persons have Registered Common Stock outstanding, "Replacement Shares" shall mean shares of the Common Stock of whichever ultimate parent entity is the corporation or real estate investment trust having the highest aggregate shareholders' equity or, if no such ultimate parent entity is a corporation or a real estate investment trust, shall be deemed to refer to shares of the Common Stock of whichever ultimate parent entity is the entity having the greatest net assets. Any issuer of "Replacement Shares" shall be referred to as an "ISSUER." "MARKET CAPITALIZATION" means the dollar figure equal to the product of the number of shares of Common Stock issued and outstanding on the date of the Trigger Occurrence in question, on a fully diluted basis, not held by Affiliates (as defined under the Exchange Act) multiplied by the Average Trading Price (as hereinafter defined).

B. From and after a Trigger Occurrence, the "Conversion Factor" shall be adjusted by multiplying the "Conversion Factor" existing on the day immediately prior to such Trigger Occurrence as follows: (i) if the REIT Shares, as a result of the Trigger Occurrence, have been converted solely into the right to receive Registered Common Stock, by the number of shares of Registered Common Stock which the holder of a single REIT Share was entitled to receive as a result of the Trigger Occurrence or (ii) in all other cases, by a fraction, the numerator of which shall be the Average Trading Price of a REIT Share as of such Trigger Occurrence and the denominator of which shall be the Average Trading Price of a Replacement Share as of such Trigger Occurrence. Following a Trigger Occurrence, the Conversion Factor shall be further adjusted as set forth in the definition of "Conversion Factor" contained in Article 1 of this Agreement and as provided in this Section 16.2.

C. For the purpose of any computation hereunder, the "Average Trading Price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such shares for the ten consecutive trading days immediately prior to the third trading day prior to such date; PROVIDED, HOWEVER, in the event the Triggering Event occurs as part of a series of related transactions which also includes a tender offer, the ten trading day period shall be the ten consecutive trading day period immediately prior to the day REIT Shares are accepted for payment pursuant to such tender offer; PROVIDED, HOWEVER, FURTHER, if prior to the expiration of such requisite ten trading day period the issuer announces either (A) a dividend or distribution on such shares payable in such shares or securities convertible into such shares or (B) any subdivision, combination or reclassification of such shares, then, following the ex-dividend date for such dividend or the record date for such subdivision, as the case may be, the "Average Trading Price" shall be properly adjusted to take into account such event. The closing price for each day shall be, if the shares are listed and admitted to trading on a national securities exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national

securities exchange on which such shares are listed or admitted to trading or, if such shares are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the high bid price in the over-the-counter market, as reported by the NASDAQ National Market System or such other system then in use, or, if on any such date such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such shares selected by the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates). If such shares are not publicly held or not so listed or traded or if, for the ten days prior to such date, no market maker is making a market in such shares, the Average Trading Price of such shares on such date shall be deemed to be the fair value of such shares as determined as set forth in Section 16.2.D. The term "TRADING DAY" shall mean, if such shares are listed or admitted to trading on any national securities exchange, a day on which the principal national securities exchange on which such shares are listed or admitted to trading is open for the transaction of business or, if such shares are not so listed or admitted, a Business Day.

D. In the event that on the date of a Trigger Occurrence, the shares of a Person are not publicly held or not so listed or traded or if, for the ten days prior to such date, no market maker is making a market in the shares of a Person, the Average Trading Price of the shares of such Person shall be the fair value of the shares as determined in good faith by the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) and the General Partner, which determination shall be binding on all of the Limited Partners. If the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) and the General Partner have not agreed on the fair value of the shares and executed and delivered between them an agreement setting forth the same within twenty (20) days after the Trigger Occurrence in question, then either the General Partner or the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) may notify the other that they or it desire to invoke the following arbitration procedure:

(1) Notice of the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) or the General Partner of such parties' intention to seek arbitration shall be delivered to the other parties within ten (10) days after which all parties shall, in good faith, attempt to agree on a single arbitrator to determine the fair value of the shares (the "ARBITRATOR"). If the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) and the General Partner have not agreed on the Arbitrator within ten (10) days after the giving of the Arbitration Notice, then either, on behalf of both, may apply to the local office of the American Arbitration Association or any organization which is the successor thereof (the "AAA") for appointment of the Arbitrator, or, if the AAA shall not then exist or shall fail, refuse or be unable to act such that the Arbitrator is not appointed by the AAA within ten (10) days after application therefor, then either party may apply to any court of competent jurisdiction in the State of North Carolina (the "COURT") for the appointment of the Arbitrator and the other party shall not raise any question as to the Court's full power and jurisdiction to entertain the application and make the appointment. The date on which the Arbitrator is appointed, by the agreement of the parties, by appointment by the AAA or by appointment by the Court, is referred to herein as the "APPOINTMENT DATE." If any Arbitrator appointed hereunder shall be unwilling or unable, for any reason, to serve, or continue to serve, a replacement arbitrator shall be appointed in the same manner as the original Arbitrator.

(2) The arbitration shall be conducted in accordance with the then prevailing commercial arbitration rules of the AAA, modified as follows:

(i) To the extent that any statute imposes requirements different than those of the AAA in order for the decision of the Arbitrator to be enforceable in the courts of the State of North Carolina, such requirements shall be complied with in the arbitration.

(ii) The Arbitrator shall be disinterested and impartial, shall not be affiliated with the Limited Partners or the General Partner and shall have at least ten (10) years experience in the market in which the applicable Person transacts the majority of its business.

(iii) Before hearing any testimony or receiving any evidence, the Arbitrator shall be sworn to hear and decide the controversy faithfully and fairly by an officer authorized to administer an oath and a written copy thereof shall be delivered to each of the Limited Partners and the General Partner.

(iv) Within twenty (20) days after the Appointment Date, the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) and the General Partner shall deliver to the Arbitrator two (2) copies of their respective written determinations of the fair value of the shares (each, a "DETERMINATION") together with such affidavits, appraisals, reports and other written evidence relating thereto as the submitting party deems appropriate. After the submission of any Determination, the submitting party may not make any additions to or deletions from, or otherwise change, such Determination or the affidavits, appraisals, reports and other written evidence delivered therewith. If either party fails to so deliver its Determination within such time period, time being of the essence with respect thereto, such party shall be deemed to have irrevocably waived its right to deliver a Determination and the Arbitrator, without holding a hearing, shall accept the Determination of the submitting party as the fair value of the shares. If each party submits a Determination with respect to the fair value of the shares within the twenty (20) day period described above, the Arbitrator shall, promptly after its receipt of the second Determination, deliver a copy of each party's Determination to the other party.

(v) Not less than ten (10) days nor more than twenty (20) days after the earlier to occur of (x) the expiration of the twenty (20) day period provided for in clause (iv) of this subparagraph or (y) the Arbitrator's receipt of both of the Determinations from the parties (such earlier date is referred to herein as the "SUBMISSION DATE") and upon not less than five (5) days notice to the parties, the Arbitrator shall hold one or more hearings with respect to the determination of the fair value of the shares. The hearings shall be held in the Raleigh/Durham metropolitan area of North Carolina at such location and time as shall be specified by the Arbitrator. Each of the parties shall be entitled to present all relevant evidence and to cross-examine witnesses at the hearings. The Arbitrator shall have the authority to adjourn any hearing to such later date as the Arbitrator shall specify, provided that in all events all hearings with respect to the determination of the fair value of the shares shall be concluded not later than thirty (30) days after the Submission Date.

(vi) The Arbitrator shall be instructed, and shall be empowered only, to select as the fair value of the shares that one of the Determinations which the Arbitrator believes is the more accurate determination of the Average Trading Price of the shares. Without limiting the generality of the foregoing, in rendering his or her decision, the Arbitrator shall not add to, subtract from or otherwise modify the provisions of this Agreement or either of the Determinations.

(vii) The Arbitrator shall render his or her determination as to the selection of a Determination in a signed and acknowledged written instrument, original counterparts of which shall be sent simultaneously to Limited Partners and the General Partner, within ten (10) days after the conclusion of the hearing(s) required by clause (v) of this Section.

(3) This provision shall constitute a written agreement to submit any dispute regarding the determination of the Average Trading Price of the shares of a Person to arbitration.

(4) The arbitration decision, determined as provided in this Article, shall be conclusive and binding on the parties, shall constitute an "award" by the Arbitrator within the meaning of the AAA rules and applicable law, and judgment may be entered thereon in any court of competent jurisdiction.

(5) The Partnership shall pay all fees and expenses relating to the arbitration (including, without limitation, the fees and expenses of one counsel (including local counsel, if required) chosen by the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates) and of experts and witnesses retained or called by the Limited Partners). The Limited Partners' counsel chosen as set forth in the preceding sentence shall represent the interests of all of the Limited Partners and the choice of counsel shall be binding on all of the Limited Partners.

E. From and after a Trigger Occurrence, each and every reference to the "General Partner" in Section 8.6 shall be deemed to be a reference to the Issuer of the Replacement Shares. From and after a Trigger Occurrence, the Issuer shall assume or unconditionally guaranty the performance of the General Partner's obligations under this Agreement pursuant to an instrument in form and substance satisfactory to the holders of a majority of the Partnership Units held by the Limited Partners (excluding the Partnership Units held by the General Partner and its Affiliates). From and after a Trigger Occurrence, the "Average Trading Price" of a REIT Share or a Replacement Share, as applicable shall be substituted for the "Value" of the same for the purposes of determining the Cash Amount.

SECTION 16.3 ADDITIONAL ISSUER COVENANTS

The General Partner shall (i) not enter in an agreement with any Person which would result in a Triggering Event unless such agreement provides for each of the following and (ii) from and after any Trigger Occurrence, comply with each of the following:

A. If, on the day immediately prior to a Trigger Occurrence, the Issuer is qualified as a REIT, then, substantially contemporaneously with such Trigger Occurrence, the General Partner, the Issuer and its Affiliates shall enter into such mergers, combinations, conveyances or other transactions as shall be required to cause substantially all of the assets of the General Partner and the Issuer and its Affiliates to be owned, leased or held directly or indirectly by a single operating partnership in which the Limited Partners shall hold partnership units having the rights specified by this Agreement. The agreement governing the resulting operating partnership shall be in a form substantially no less favorable to each of the Limited Partners than is this Agreement.

B. From and after a Trigger Occurrence, in the event a dividend or distribution consisting of cash or property (other than Replacement Shares) or both is paid by the Issuer in respect of the Replacement Shares, the General Partner shall cause the Partnership to distribute, in respect of each Partnership Unit, the same amount of cash or property the holder of a Partnership Unit would have received had such holder exercised its Redemption Right and received Replacement Shares prior to such dividend or distribution.

SECTION 16.4 APPLICATION TO LATER TRANSACTIONS

This Article 16 shall apply to the initial Triggering Event and shall continue to apply to each subsequent Triggering Event.

SECTION 16.5 WAIVERS AND AMENDMENTS

This Article 16 shall only be amended as provided in Section 14.1.D of this Agreement and shall be deemed included in such section for all purposes; provided that the General Partner may amend this Article 16, without the consent of the Limited Partners for the purposes set forth at Section 14.1.B(4) prior to a Trigger Occurrence.

ARTICLE 5

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1997
PERIOD START	APR 01 1997	JAN 01 1997
PERIOD END	JUN 30 1997	JUN 30 1997
CASH	18,625,000	18,625,000
SECURITIES	0	0
RECEIVABLES	14,078,000	14,078,000
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	38,465,000	38,465,000
PP&E	1,726,813,000	1,726,813,000
DEPRECIATION	62,062,000	62,062,000
TOTAL ASSETS	1,737,538,000	1,737,538,000
CURRENT LIABILITIES	28,211,000	28,211,000
BONDS	647,473,000	647,473,000
PREFERRED MANDATORY	0	0
PREFERRED	125,000,000	125,000,000
COMMON	364,000	364,000
OTHER SE	936,490,000	936,490,000
TOTAL LIABILITY AND EQUITY	1,737,538,000	1,737,538,000
SALES	59,423,000	115,478,000
TOTAL REVENUES	61,238,000	119,559,000
CGS	16,246,000	31,588,000
TOTAL COSTS	26,836,000	51,488,000
OTHER EXPENSES	2,204,000	1,200,000
LOSS PROVISION	0	0
INTEREST EXPENSE	11,603,000	23,638,000
INCOME PRETAX	20,595,000	40,149,000
INCOME TAX	0	0
INCOME CONTINUING	17,300,000	33,725,000
DISCONTINUED	0	0
EXTRAORDINARY	0	3,337,000
CHANGES	0	0
NET INCOME	14,605,000	26,286,000
EPS PRIMARY	.41	.74
EPS DILUTED	.41	.74

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