

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____



HIGHWOODS PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

001-13100
(Commission
File Number)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction
of incorporation or organization)

000-21731
(Commission
File Number)

56-1869557
(I.R.S. Employer
Identification Number)

3100 Smoketree Court, Suite 600
Raleigh, NC 27604
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value, of Highwoods Properties, Inc.	New York Stock Exchange
8 5/8% Series A Cumulative Redeemable Preferred Shares of Highwoods Properties, Inc.	New York Stock Exchange
8% Series B Cumulative Redeemable Preferred Shares of Highwoods Properties, Inc.	New York Stock Exchange

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Highwoods Properties, Inc. Yes S No £ **Highwoods Realty Limited Partnership** Yes S No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act.

Highwoods Properties, Inc. Yes £ No S **Highwoods Realty Limited Partnership** Yes £ No S

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.

Highwoods Properties, Inc. Yes S No £ **Highwoods Realty Limited Partnership** Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Highwoods Properties, Inc.	Yes	S	No	£	Highwoods Realty Limited Partnership	Yes	£	No	£
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of such registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒ S

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Securities Exchange Act.

Highwoods Properties, Inc.

Large accelerated filer S	Accelerated filer £	Non-accelerated filer £	Smaller reporting company £
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Highwoods Realty Limited Partnership

Large accelerated filer £ Accelerated filer £ Non-accelerated filer S Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Highwoods Properties, Inc.	Yes	£	No	S	Highwoods Realty Limited Partnership	Yes	£	No	S
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The aggregate market value of shares of Common Stock of Highwoods Properties, Inc. held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on June 30, 2010 was approximately \$2.0 billion. At February 2, 2011, there were 71,704,149 shares of Common Stock outstanding.

There is no public trading market for the Common Units of Highwoods Realty Limited Partnership. As a result, an aggregate market value of the Common Units of Highwoods Realty Limited Partnership cannot be determined.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Highwoods Properties, Inc. to be filed in connection with its Annual Meeting of Stockholders to be held May 12, 2011 are incorporated by reference in Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

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PART I

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units,” the Operating Partnership’s preferred partnership interests as “Preferred Units” and in-service properties (excluding rental residential units and for-sale residential condominiums) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The Company is a fully-integrated, self-administered and self-managed equity real estate investment trust (“REIT”). The Common Stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “HIW.” The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

ITEM 1. BUSINESS

General

We are one of the largest owners and operators of office properties in the Southeastern and Midwestern United States. While we also own and operate industrial and retail properties in three of our markets, our office properties represented 86.5% of rental and other revenues for the year ended December 31, 2010. At December 31, 2010, we:

- wholly owned 295 in-service office, industrial and retail properties, encompassing approximately 27.2 million rentable square feet, 96 rental residential units and 26 for-sale residential condominiums;
- owned an interest (50.0% or less) in 35 in-service office and industrial properties, encompassing approximately 5.2 million rentable square feet, one office property under development and 11 acres of development land, including a 12.5% interest in a 261,000 square foot office property owned directly by the Company and thus is included in the Company’s Consolidated Financial Statements, but not included in the Operating Partnership’s Consolidated Financial Statements;
- wholly owned 611 acres of undeveloped land, approximately 523 acres of which are considered core holdings, defined as properties expected to be held indefinitely, and which are suitable to develop approximately 5.8 million and 2.7 million rentable square feet of office and industrial space, respectively; and
- wholly owned two completed but not yet stabilized office properties encompassing 265,000 square feet.

At December 31, 2010, the Company owned all of the Preferred Units and 71.3 million, or 95.0%, of the Common Units. Limited partners (including one officer and two directors of the Company) own the remaining 3.8 million Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable.

The Company was incorporated in Maryland in 1994. The Operating Partnership was formed in North Carolina in 1994. Our executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, NC 27604, and our telephone number is (919) 872-4924.

Our business is the operation, acquisition and development of rental real estate properties. We operate office, industrial, retail and residential properties. There are no material inter-segment transactions. See Note 19 to our Consolidated Financial Statements for a summary of the rental and other revenues, net operating income and assets for each reportable segment.

In addition to this Annual Report, we file or furnish quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). All documents that the Company files or furnishes with the SEC are made available as soon as reasonably practicable free of charge on our website, which is <http://www.highwoods.com>. The information on our website is not and should not be considered part of this Annual Report and is not incorporated by reference in this document. You may also read and copy any document that we file or furnish at the public reference facilities of the SEC at 100 F. Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC at (800) 732-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's interactive data electronic applications on the SEC's website, which is <http://www.sec.gov>. In addition, you can read similar information about us at the offices of the NYSE at 20 Broad Street, New York, NY 10005.

During 2010, the Company filed unqualified Section 303A certifications with the NYSE. The Company and the Operating Partnership have also filed the CEO and CFO certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Annual Report.

Business and Operating Strategy

Our Strategic Plan focuses on:

- owning high-quality, differentiated real estate assets in the better submarkets in our core markets;
- improving the operating results of our existing properties through concentrated leasing, asset management, cost control and customer service efforts;
- developing and acquiring office properties in in-fill and central business district locations that improve the overall quality of our portfolio and generate attractive returns over the long-term for our stockholders;
- selectively disposing of properties no longer considered to be core holdings primarily due to location, age, quality and overall strategic fit; and
- maintaining a conservative, flexible balance sheet with ample liquidity to meet our funding needs and growth prospects.

Local Market Leadership . We focus our real estate activities in markets where we have extensive local knowledge and own a significant amount of assets. We maintain offices in each of our core markets, except Greenville, SC, which are led by division officers that have significant real estate experience in their respective markets. Our real estate professionals are seasoned and cycle-tested. Our senior leadership team has significant experience and maintains important relationships with market participants in each of our core markets.

Customer Service-Oriented Organization . We provide a complete line of real estate services to our customers. We believe that our in-house leasing and asset management, development, acquisition and construction management services allow us to respond to the many demands of our existing and potential customer base. We provide our customers with cost-effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of our capabilities and resources provides us with market information not generally available. We believe that operating efficiencies achieved through our fully integrated organization and the strength of our balance sheet also provide a competitive advantage in retaining existing customers and attracting new customers as well as setting our lease rates and pricing other services. In addition, our relationships with our customers may lead to development projects when these customers seek new space.

Geographic Diversification . Today, including our various joint ventures, our core portfolio consists of office properties in Raleigh, Tampa, Nashville, Memphis, Richmond and Orlando, office and industrial properties in Atlanta and Greensboro and retail and office properties in Kansas City. We do not believe that our operations are significantly dependent upon any particular geographic market. However, economic growth and employment levels in Florida, Georgia, North Carolina and Tennessee will continue to be important determinative factors in predicting our future operating results.

Conservative and Flexible Balance Sheet . We are committed to maintaining a conservative and flexible balance sheet that allows us to capitalize on favorable development and acquisition opportunities as they arise. Our balance sheet also allows us to proactively assure our existing and prospective customers that we are able to fund tenant improvements and maintain our properties in good condition.

We expect to meet our liquidity needs through a combination of:

- cash flow from operating activities;
- borrowings under our credit facilities;
- the issuance of unsecured debt;
- the issuance of secured debt;
- the issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

Competition

Our properties compete for customers with similar properties located in our markets primarily on the basis of location, rent, services provided and the design, quality and condition of the facilities. We also compete with other REITs, financial institutions, pension funds, partnerships, individual investors and others when attempting to acquire, develop and operate properties.

Employees

At December 31, 2010, the Company had 397 full-time employees, of which 396 were also employees of the Operating Partnership.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. Investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of these risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Adverse economic conditions in our markets that negatively impact the demand for office space, such as high unemployment, may result in lower occupancy and rental rates for our portfolio, which would result in lower operating results . While we own and operate a limited number of industrial, retail and residential properties, our operating results depend heavily on successfully leasing and operating our office properties. Economic growth and employment levels in Florida, Georgia, North Carolina and Tennessee are and will continue to be important determinative factors in predicting our future operating results.

Key components affecting our rental and other revenues include average occupancy and rental rates. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth and decreasing office employment because new vacancies tend to outpace our ability to lease space. In addition, the timing of changes in occupancy levels tends to lag the timing of changes in overall economic activity and employment levels. For additional information regarding our average occupancy and rental rate trends over the past five years, see “Item 2. Properties – Wholly Owned Properties” set forth in this Annual Report. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see “Item 2. Properties – Lease Expirations” set forth in this Annual Report. Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases signed are higher or lower than the rents under the previous leases. Lower rental revenues resulting from lower average occupancy or lower rental rates with respect to our same property portfolio will generally reduce our operating results unless offset by the impact of any newly acquired or developed properties or lower variable operating expenses, general and administrative expenses and/or interest expense.

An oversupply of space in our markets would typically cause rental rates and occupancies to decline, making it more difficult for us to lease space at attractive rental rates, if at all . Undeveloped land in many of the markets in which we operate is generally more readily available and less expensive than in higher barrier-to-entry markets such as New York, Chicago, Boston, San Francisco and Los Angeles. As a result, even during times of positive economic growth, our competitors could construct new buildings that would compete with our properties. Any such oversupply could result in lower occupancy and rental rates in our portfolio, which would have a negative impact on our operating results.

In order to maintain the quality of our properties and successfully compete against other properties, we periodically must spend money to maintain, repair and renovate our properties, which reduces our cash flows . If our properties are not as attractive to customers due to physical condition as properties owned by our competitors, we could lose customers or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain the competitiveness of our properties. There can be no assurances that any such expenditures would result in higher occupancy or higher rental rates or deter existing customers from relocating to properties owned by our competitors.

Our operating results and financial condition could be adversely affected by financial difficulties experienced by a major customer, or by a number of smaller customers, including bankruptcies, insolvencies or general downturns in business . The success of our investments and stability of our operations depend on the financial stability of our customers. A default or termination by a significant customer on its lease payments to us would cause us to lose the revenue associated with such lease. In the event of a customer default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing the property. If a customer defaults on or terminates a significant lease, we may not be able to recover the full amount of unpaid rent or be able to lease the property for the rent previously received, if at all. These events could reduce our operating results.

To relet space to an existing customer or attract a new customer to occupy space, we may incur significant costs in the process, including potentially substantial tenant improvements, broker commissions and lease incentives . Approximately 10-15% of our revenues at the beginning of any particular year are subject to leases that expire by the end of that year. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing leases on expiring space. To entice customers to renew existing leases or sign new leases, we may be required to make substantial leasing capital expenditures. In addition, if market rents have declined since the time the expiring lease was executed, the terms of any new lease likely will not be as favorable to us as the terms of the expiring lease, thereby reducing the rental revenue earned from that space. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our customers, we may lose existing or prospective customers, and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights and other concessions.

Costs of complying with governmental laws and regulations may reduce our operating results . All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations or stricter interpretation of existing laws may require us to incur significant expenditures. Future laws or regulations may impose significant environmental liability. Additionally, our customers' operations, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and that may subject us to liability in the form of fines or damages for noncompliance. Any expenditures, fines or damages we must pay would reduce our operating results. Proposed legislation to address climate change could increase utility and other costs of operating our properties which, if not offset by rising rental income, would reduce our net income.

Discovery of previously undetected environmentally hazardous conditions may decrease our operating results and limit our ability to make distributions . Under various federal, state and local environmental laws and regulations, a current or previous property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on such property. These costs could be significant. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require significant expenditures or prevent us from entering into leases with prospective customers that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could reduce our operating results.

Our operating results may suffer if costs of operating our properties, such as real estate taxes, utilities, insurance, maintenance and other costs, rise faster than our ability to increase rental revenues . While we receive additional rent from our customers that is based on recovering a portion of operating expenses, increased operating expenses will negatively impact our operating results. Our revenues and expense recoveries are subject to longer-term leases and may not be quickly increased sufficient to recover an increase in operating costs and expenses. Furthermore, the costs associated with owning and operating a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in rental revenues from the property. Increases in same property operating expenses would reduce our operating results unless offset by the impact of any newly acquired or developed properties or lower general and administrative expenses and/or interest expense.

Recent and future acquisitions and development properties may fail to perform in accordance with our expectations and may require renovation and development costs exceeding our estimates. In the normal course of business, we typically evaluate potential acquisitions, enter into non-binding letters of intent, and may, at any time, enter into contracts to acquire additional properties. Acquired properties may fail to perform in accordance with our expectations due to lease-up risk, renovation cost risks and other factors. In addition, the renovation and improvement costs we incur in bringing an acquired property up to market standards may exceed our estimates. We may not have the financial resources to make suitable acquisitions or renovations on favorable terms or at all.

Further, we face significant competition for attractive investment opportunities from an indeterminate number of other real estate investors, including investors with significantly greater capital resources and access to capital than we have, such as domestic and foreign corporations and financial institutions, publicly-traded and privately-held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. Moreover, owners of office properties may be reluctant to sell, resulting in fewer acquisition opportunities. As a result of such increased competition and limited opportunities, we may be unable to acquire additional properties or the purchase price of such properties may be significantly elevated, which may impede our growth and materially and adversely affect us.

In addition to acquisitions, we periodically consider developing and constructing properties. Risks associated with development and construction activities include:

- the unavailability of favorable construction and/or permanent financing;
- construction costs exceeding original estimates;
- construction and lease-up delays resulting in increased debt service expense and construction costs; and
- lower than anticipated occupancy rates and rents at a newly completed property causing a property to be unprofitable or less profitable than originally estimated.

Development activities are also subject to risks relating to our ability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental and utility company authorizations.

Illiquidity of real estate investments and the tax effect of dispositions could significantly impede our ability to sell assets or respond to favorable or adverse changes in the performance of our properties. Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. In addition, we have a significant amount of mortgage debt under which we would incur significant prepayment penalties if such loans were paid off in connection with the sale of the underlying real estate assets.

We intend to continue to sell some of our properties in the future as part of our investment strategy and activities. However, we cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether the price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and close the sale of a property.

Certain of our properties have low tax bases relative to their estimated current fair values, and accordingly, the sale of such assets would generate significant taxable gains unless we sold such properties in a tax-deferred exchange under Section 1031 of the Internal Revenue Code or another tax-free or tax-deferred transaction. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there could be a delay in reinvesting such proceeds. Any delay in using the reinvestment proceeds to acquire additional income producing assets would reduce our operating results.

Because holders of our Common Units, including one of our officers and two of our directors, may suffer adverse tax consequences upon the sale of some of our properties, they may seek to influence us not to sell certain properties even if such a sale would otherwise be in our best interest. Holders of Common Units may suffer adverse tax consequences upon the sale of certain properties. Therefore, holders of Common Units, including one of our officers and two of our directors, may have different objectives than the Company's stockholders regarding the appropriate pricing and timing of a property's sale. Although the Company is the sole general partner of the Operating Partnership and has the exclusive authority to sell any of our Wholly Owned Properties, officers and directors who hold Common Units may seek to influence the Company not to sell certain properties even if such sale might be financially advantageous to stockholders, creditors, bondholders or our business as a whole or influence the Company to enter into tax deferred exchanges with the proceeds of such sales when such a reinvestment might not otherwise be in our best interest.

The value of our joint venture investments could be adversely affected if we are unable to work effectively with our partners or our partners become unable to satisfy their financial obligations. Instead of owning properties directly, we have in some cases invested, and may continue to invest, as a partner or a co-venturer with one or more third parties. Under certain circumstances, this type of investment may involve risks not otherwise present, including the possibility that a partner or co-venturer might be unable to fund its obligations or might have business interests or goals inconsistent with ours. Also, such a partner or co-venturer may take action contrary to our requests or contrary to provisions in our joint venture agreements that could harm us. If we want to sell our interests in any of our joint ventures or believe that the properties in the joint venture should be sold, we may not be able to do so in a timely manner or at all, and our partner(s) may not cooperate with our desires, which could harm us.

Our insurance coverage on our properties may be inadequate. We carry insurance on all of our properties, including insurance for liability, fire, windstorms, floods, earthquakes and business interruption. Insurance companies, however, limit coverage against certain types of losses, such as losses due to terrorist acts, named windstorms, earthquakes and toxic mold. Thus, we may not have insurance coverage, or sufficient insurance coverage, against certain types of losses and/or there may be decreases in the insurance coverage available. Should an uninsured loss or a loss in excess of our insured limits occur, we could lose all or a portion of the capital we have invested in a property or properties, as well as the anticipated future revenue from the property or properties. If any of our properties were to experience a catastrophic loss, it could disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our operating results and financial condition.

Our use of debt to finance our operations could have a material adverse effect on our cash flow and ability to make distributions. We are subject to risks associated with debt financing, such as the sufficiency of cash flow to meet required payment obligations, ability to comply with financial ratios and other covenants and the availability of capital to refinance existing indebtedness or fund important business initiatives. Increases in interest rates on our variable rate debt would increase our interest expense. If we fail to comply with the financial ratios and other covenants under our credit facilities, we would likely not be able to borrow any further amounts under such facilities, which could adversely affect our ability to fund our operations, and our lenders could accelerate outstanding debt.

We generally do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions. If we do not meet our mortgage financing obligations, any properties securing such indebtedness could be foreclosed on, which could have a material adverse effect on our cash flow and ability to pay distributions.

From time to time, we depend on our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt upon maturity. Our ability to borrow under the revolving credit facility also allows us to quickly capitalize on accretive opportunities at short-term interest rates. If our lenders default under their obligations under the revolving credit facility or we become unable to borrow additional funds under the facility for any reason, we would be required to seek alternative equity or debt capital, which could be more costly and adversely impact our financial condition. If such alternative capital were unavailable, we may not be able to make new investments and could have difficulty repaying other debt.

The Company may be subject to taxation as a regular corporation if it fails to maintain its REIT status, which could also have a material adverse effect on the Company's stockholders and on the Operating Partnership. The Company is subject to adverse consequences if it fails to continue to qualify as a REIT for federal income tax purposes. While the Company intends to operate in a manner that will allow it to continue to qualify as a REIT, we cannot provide any assurances that it will remain qualified as such in the future, which would have particularly adverse consequences to the Company's stockholders. Many of the requirements for taxation as a REIT are highly technical and complex and depend upon various factual matters and circumstances that may not be entirely within our control. For example, to qualify as a REIT, at least 95.0% of the Company's gross income must come from certain sources that are itemized in the REIT tax laws. The fact that the Company holds virtually all of the assets through the Operating Partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize the Company's REIT status. Furthermore, Congress and the Internal Revenue Service ("IRS") might change the tax laws and regulations and the courts might issue new rulings that make it more difficult, or impossible, for the Company to remain qualified as a REIT. If the Company fails to qualify as a REIT, it would be subject to federal income tax at regular corporate rates and would, therefore, have less cash available for investments or payment of principal and interest to our creditors or bondholders. Such events would likely have a significant adverse effect on our operating results and financial condition.

Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities or future growth initiatives. For the Company to maintain its qualification as a REIT, it must annually distribute to its stockholders at least 90% of REIT taxable income, excluding net capital gains. In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, that are generated as part of our capital recycling program are subject to federal and state income tax unless such gains are distributed to the Company's stockholders. Cash distributions made to stockholders to maintain REIT status or to distribute otherwise taxable capital gains limit our ability to accumulate capital for other business purposes, including funding debt maturities or growth initiatives.

Because provisions contained in Maryland law, the Company's charter and its bylaws may have an anti-takeover effect, the Company's stockholders may be prevented from receiving a "control premium" for the Common Stock. Provisions contained in the Company's charter and bylaws as well as Maryland general corporation law may have anti-takeover effects that delay, defer or prevent a takeover attempt, and thereby prevent stockholders of the Company from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for the Common Stock or purchases of large blocks of the Common Stock, thus limiting the opportunities for the Company's stockholders to receive a premium for their Common Stock over then-prevailing market prices. These provisions include the following:

- **Ownership limit** . The Company's charter prohibits direct, indirect or constructive ownership by any person or entity of more than 9.8% of the Company's outstanding capital stock. Any attempt to own or transfer shares of the Company's capital stock in excess of the ownership limit without the consent of the Company's Board of Directors will be void.
- **Preferred Stock** . The Company's charter authorizes its Board of Directors to issue Preferred Stock in one or more classes and to establish the preferences and rights of any class of Preferred Stock issued. These actions can be taken without stockholder approval. The issuance of Preferred Stock could have the effect of delaying or preventing someone from taking control of the Company, even if a change in control were in our best interest.
- **Maryland control share acquisition statute** . Maryland's control share acquisition statute applies to the Company, which means that persons, entities or related groups that acquire more than 20% of the Common Stock may not be able to vote such excess shares under certain circumstances if such shares were acquired in one or more transactions not approved by at least two-thirds of the outstanding Common Stock held by disinterested stockholders.
- **Maryland unsolicited takeover statute**. Under Maryland law, the Company's Board of Directors could adopt various anti-takeover provisions without the consent of stockholders. The adoption of such measures could discourage offers for the Company or make an acquisition of the Company more difficult, even when an acquisition would be in the best interest of its stockholders.
- **Anti-takeover protections of Operating Partnership agreement** . Upon a change in control of the Company, the partnership agreement of the Operating Partnership requires certain acquirers to maintain an umbrella partnership real estate investment trust structure with terms at least as favorable to the limited partners as are currently in place. For instance, the acquirer would be required to preserve the limited partner's right to continue to hold tax-deferred partnership interests that are redeemable for capital stock of the acquirer. Exceptions would require the approval of two-thirds of the limited partners of the Operating Partnership (other than the Company). These provisions may make a change of control transaction involving the Company more complicated and therefore might decrease the likelihood of such a transaction occurring, even if such a transaction would be in the best interest of the Company's stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Wholly Owned Properties

The following table sets forth information about our Wholly Owned Properties:

	December 31, 2010		December 31, 2009	
	Rentable Square Feet	Percent Leased/ Pre- Leased	Rentable Square Feet	Percent Leased/ Pre- Leased
In-Service:				
Office (1)	20,502,000	89.9%	20,445,000	88.8%
Industrial	5,827,000	90.4	6,463,000	87.4
Retail	853,000	97.8	869,000	98.0
Total or Weighted Average	27,182,000	90.3%	27,777,000	88.8%
Development:				
Completed—Not Stabilized (2)				
Office	265,000	13.4%	301,000	46.0%
Industrial	—	—	200,000	50.0
Total or Weighted Average	265,000	13.4%	501,000	47.6%
Total:				
Office	20,767,000		20,746,000	
Industrial	5,827,000		6,663,000	
Retail	853,000		869,000	
Total	27,447,000		28,278,000	

- (1) Includes a 60,000 square foot office property, which is reflected as development in process in our Consolidated Financial Statements.
- (2) We consider a development project to be stabilized upon the earlier of the original projected stabilization date or the date such project is at least 95% occupied. All of these properties were placed in service at December 31, 2010 and 2009, respectively, as reflected in our Consolidated Financial Statements.

The following table sets forth the net changes in square footage in our in-service Wholly Owned Properties:

	Years Ended December 31,		
	2010	2009	2008
	(rentable square feet in thousands)		
Office, Industrial and Retail Properties:			
Dispositions	(1,309)	(550)	(744)
Developments Placed In-Service	413	751	1,380
Redevelopment/Other	(35)	(17)	(11)
Acquisitions	336	220	135
Net Change in Square Footage of In-Service Wholly Owned Properties	(595)	404	760

The following table sets forth information about our in-service Wholly Owned Properties by segment and by geographic location at December 31, 2010:

Market	Rentable Square Feet	Occupancy	Percentage of Annualized Cash Rental Revenue (1)			
			Office	Industrial	Retail	Total
Raleigh, NC	4,196,000	90.6%	16.1%	—	—	16.1%
Atlanta, GA	5,869,000	90.1	11.0	3.7%	—	14.7
Tampa, FL	2,879,000	90.0	14.5	—	—	14.5
Nashville, TN	3,096,000	89.8	13.3	—	—	13.3
Kansas City, MO	1,504,000	91.3	3.4	—	6.6%	10.0
Memphis, TN	1,920,000	91.0	9.3	—	—	9.3
Richmond, VA	2,231,000	93.4	8.7	—	—	8.7
Piedmont Triad, NC	4,173,000	89.4	5.3	2.8	—	8.1
Greenville, SC	898,000	88.0	3.3	—	—	3.3
Orlando, FL	416,000	85.6	2.0	—	—	2.0
Total	27,182,000	90.3%	86.9%	6.5%	6.6%	100.0%

- (1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2010 multiplied by 12.

The following table sets forth operating information about our in-service Wholly Owned Properties:

	Average Occupancy	Annualized Cash Rent Per Square Foot (1)
2006	88.5%	\$ 15.89
2007	90.2%	\$ 16.27
2008	91.2%	\$ 17.18
2009	88.2%	\$ 17.53
2010	88.6%	\$ 17.40

- (1) Annualized Cash Rent Per Square Foot is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December of the respective year multiplied by 12, divided by total occupied square footage.

Customers

The following table sets forth information concerning the 20 largest customers of our Wholly Owned Properties at December 31, 2010:

Customer	Rental Square Feet	Annualized Cash Rental Revenue (1) (in thousands)	Percent of Total Annualized Cash Rental Revenue (1)	Weighted Average Remaining Lease Term in Years
Federal Government	1,963,435	\$ 41,315	9.66%	7.4
AT&T	789,979	14,967	3.50	3.5
PricewaterhouseCoopers	326,909	8,663	2.03	2.5
State of Georgia	401,473	7,300	1.71	6.4
Healthways	290,689	6,703	1.57	11.6
Metropolitan Life Insurance	296,595	6,164	1.44	7.5
T-Mobile USA	207,517	5,801	1.36	3.2
Lockton Companies	170,743	4,905	1.15	2.9
BB&T	318,744	4,849	1.13	4.1
HCA Corporation	211,411	4,796	1.12	4.4
Syniverse Technologies, Inc.	198,750	4,199	0.98	6.1
RBC Bank	164,271	3,914	0.92	16.2
SCI Services	162,784	3,735	0.87	6.8
Volvo	298,321	3,597	0.84	4.0
Fluor Enterprises, Inc.	190,038	3,513	0.82	1.4
Vanderbilt University	162,283	3,406	0.80	5.0
Jacob's Engineering Group, Inc.	181,794	3,118	0.73	4.4
Lifepoint Corporate Services	147,489	3,037	0.71	5.0
Wells Fargo/Wachovia	112,348	2,769	0.65	1.7
Icon Clinical Research	102,647	2,499	0.58	5.5
Total	6,698,220	\$ 139,250	32.57%	5.8

- (1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2010 multiplied by 12.

Land Held for Development

We wholly owned 611 acres of development land at December 31, 2010. We estimate that we can develop approximately 5.8 million and 2.7 million rentable square feet of office and industrial space, respectively, on the 523 acres that we consider core, long-term holdings for our future development needs. Additionally, we are currently developing 172,000 square feet of build-to-suit office space on 11.6 acres of land in one of our joint ventures. Our development land is zoned and available for office and industrial development, and nearly all of the land has utility infrastructure in place. We believe that our commercially zoned and unencumbered land in existing business parks gives us a development advantage over other commercial real estate development companies in many of our markets.

We consider 88 acres of our wholly owned development land at December 31, 2010 to be non-core assets that are not necessary for our foreseeable future development needs. We intend to dispose of such non-core development land through sales to third parties or contributions to joint ventures. Approximately 4.4 acres with a net book value of \$1.2 million are under contract to be sold and are included in real estate and other assets, net, held for sale in our Consolidated Financial Statements at December 31, 2010 and 2009.

Other Properties

The following table sets forth information about our stabilized in-service properties in which we own an interest (50.0% or less) by segment and by geographic location at December 31, 2010:

Market	Rentable Square Feet	Occupancy	Percentage of Annualized Cash Rental Revenue (1)
			Office
Orlando, FL	1,853,000	84.6%	42.0%
Kansas City, MO (2)	719,000	83.7	17.5
Atlanta, GA	835,000	75.0	14.9
Raleigh, NC	814,000	93.8	11.7
Richmond, VA (3)	413,000	100.0	8.3
Piedmont Triad, NC	258,000	42.8	1.7
Tampa, FL (4)	205,000	81.5	2.7
Charlotte, NC	148,000	100.0	1.2
Total	5,245,000	83.8%	100.0%

-
- (1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2010 multiplied by 12.
- (2) Includes a 12.5% interest in a 261,000 square foot office property owned directly by the Company and thus is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements.
- (3) We own a 50.0% interest in this joint venture which is consolidated.
- (4) We own a 20.0% interest in this joint venture which is consolidated.

Lease Expirations

The following tables set forth scheduled lease expirations for existing leases at our in-service and completed – not stabilized Wholly Owned Properties at December 31, 2010:

Office Properties:

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (1)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)
			(\$ in thousands)		
2011 (2)	2,340,038	12.7%	\$ 46,508	\$ 19.87	12.5%
2012	2,412,620	13.1	51,043	21.16	13.7
2013	2,564,716	13.8	55,721	21.73	15.0
2014	2,429,916	13.1	50,972	20.98	13.7
2015	2,173,576	11.8	45,717	21.03	12.3
2016	1,661,230	9.0	27,803	16.74	7.5
2017	1,198,875	6.5	22,980	19.17	6.2
2018	908,131	4.9	18,852	20.76	5.1
2019	682,244	3.7	12,765	18.71	3.4
2020	392,167	2.1	9,414	24.01	2.5
Thereafter	1,710,068	9.3	30,018	17.55	8.1
	18,473,581	100.0%	\$ 371,793	\$ 20.13	100.0%

Industrial Properties:

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (1)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)
			(\$ in thousands)		
2011 (3)	819,340	15.6%	\$ 4,574	\$ 5.58	16.5%
2012	548,707	10.4	3,192	5.82	11.5
2013	608,368	11.5	3,601	5.92	13.0
2014	886,788	16.9	4,690	5.29	16.8
2015	451,298	8.6	2,040	4.52	7.4
2016	565,443	10.7	2,262	4.00	8.2
2017	208,099	4.0	1,076	5.17	3.9
2018	88,467	1.7	214	2.42	0.8
2019	176,024	3.3	677	3.85	2.4
2020	86,908	1.6	378	4.35	1.4
Thereafter	828,646	15.7	5,030	6.07	18.1
	5,268,088	100.0%	\$ 27,734	\$ 5.26	100.0%

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2010 multiplied by 12.

(2) Includes 139,000 square feet of leases that are on a month-to-month basis, which represent 0.4% of total annualized cash rental revenue.

(3) Includes 79,000 square feet of leases that are on a month-to-month basis, which represent less than 0.1% of total annualized cash rental revenue.

Retail Properties:

<u>Lease Expiring</u>	<u>Rentable Square Feet Subject to Expiring Leases</u>	<u>Percentage of Leased Square Footage Represented by Expiring Leases</u>	<u>Annualized Cash Rental Revenue Under Expiring Leases (1)</u> (\$ in thousands)	<u>Average Annual Cash Rental Rate Per Square Foot for Expirations</u>	<u>Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)</u>
011 (2)	96,555	11.6%	\$ 2,153	\$ 22.30	7.6%
2012	58,292	7.0	2,291	39.30	8.1
2013	67,584	8.1	1,867	27.62	6.6
2014	34,030	4.1	1,616	47.49	5.7
2015	63,726	7.6	3,140	49.27	11.1
2016	62,438	7.5	2,722	43.60	9.7
2017	93,570	11.2	2,052	21.93	7.3
2018	73,157	8.8	3,109	42.50	11.0
2019	96,624	11.6	2,918	30.20	10.4
2020	67,675	8.1	2,095	30.96	7.4
Thereafter	120,748	14.4	4,220	34.95	15.1
	834,399	100.0%	\$ 28,183	\$ 33.78	100.0%

Total:

<u>Lease Expiring</u>	<u>Rentable Square Feet Subject to Expiring Leases</u>	<u>Percentage of Leased Square Footage Represented by Expiring Leases</u>	<u>Annualized Cash Rental Revenue Under Expiring Leases (1)</u> (\$ in thousands)	<u>Average Annual Cash Rental Rate Per Square Foot for Expirations</u>	<u>Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)</u>
2011 (3)	3,255,933	13.2%	\$ 53,235	\$ 16.35	12.4%
2012	3,019,619	12.3	56,526	18.72	13.2
2013	3,240,668	13.2	61,189	18.88	14.3
2014	3,350,734	13.7	57,278	17.09	13.4
2015	2,688,600	10.9	50,897	18.93	11.9
2016	2,289,111	9.3	32,787	14.32	7.7
2017	1,500,544	6.1	26,108	17.40	6.1
2018	1,069,755	4.4	22,175	20.73	5.2
2019	954,892	3.9	16,360	17.13	3.8
2020	546,750	2.2	11,887	21.74	2.8
Thereafter	2,659,462	10.8	39,268	14.77	9.2
	24,576,068	100.0%	\$ 427,710	\$ 17.40	100.0%

- (1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2010 multiplied by 12.
- (2) Includes 4,000 square feet of leases that are on a month-to-month basis, which represent less than 0.1% of total annualized cash rental revenue.
- (3) Includes 222,000 square feet of leases that are on a month-to-month basis, which represent 0.5% of total annualized cash rental revenue.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time a party to a variety of legal proceedings, claims and assessments arising in the ordinary course of our business. We regularly assess the liabilities and contingencies in connection with these matters based on the latest information available. For those matters where it is probable that we have incurred or will incur a loss and the loss or range of loss can be reasonably estimated, the estimated loss is accrued and charged to income in our Consolidated Financial Statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, a reasonable estimate of liability, if any, cannot be made. Based on the current expected outcome of such matters, none of these proceedings, claims or assessments is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

The Company is the sole general partner of the Operating Partnership. The following table sets forth information with respect to the Company's executive officers:

Name	Age	Position and Background
Edward J. Fritsch	52	<p>Director, President and Chief Executive Officer.</p> <p>Mr. Fritsch has been a director since January 2001. Mr. Fritsch became our chief executive officer and chair of the investment committee of our board of directors on July 1, 2004 and our president in December 2003. Prior to that, Mr. Fritsch was our chief operating officer from January 1998 to July 2004 and was a vice president and secretary from June 1994 to January 1998. Mr. Fritsch joined our predecessor in 1982 and was a partner of that entity at the time of our initial public offering in June 1994. Mr. Fritsch is a member of the National Association of Real Estate Investment Trusts ("NAREIT") Board of Governors and chair of its audit committee, past chair of the University of North Carolina Board of Visitors, trustee of the North Carolina Symphony, director and president of the YMCA of the Triangle, director of Capital Associated Industries, Inc. and member of its audit committee and member of Wachovia's Central Regional Advisory Board.</p>
Michael E. Harris	61	<p>Executive Vice President and Chief Operating Officer.</p> <p>Mr. Harris became chief operating officer in July 2004. Prior to that, Mr. Harris was a senior vice president and was responsible for our operations in Memphis, Nashville, Kansas City and Charlotte. Mr. Harris was executive vice president of Crocker Realty Trust prior to its merger with us in 1996. Before joining Crocker Realty Trust, Mr. Harris served as senior vice president, general counsel and chief financial officer of Towermarc Corporation, a privately owned real estate development firm. Mr. Harris is a member of the executive committee of the Urban Land Institute – Triangle Chapter and is past president of the Lambda Alpha International Land Economics Society.</p>
Terry L. Stevens	62	<p>Senior Vice President and Chief Financial Officer.</p> <p>Prior to joining us in December 2003, Mr. Stevens was executive vice president, chief financial officer and trustee for Crown American Realty Trust, a public REIT. Before joining Crown American Realty Trust, Mr. Stevens was director of financial systems development at AlliedSignal, Inc., a large multi-national manufacturer. Mr. Stevens was also an audit partner with Price Waterhouse for seven years. Mr. Stevens currently serves as trustee, chairman of the Audit Committee and member of the Investment and Finance Committee of First Potomac Realty Trust, a public REIT. Mr. Stevens is a member of the American and the Pennsylvania Institutes of Certified Public Accountants.</p>
Jeffrey D. Miller	40	<p>Vice President, General Counsel and Secretary.</p> <p>Prior to joining us in March 2007, Mr. Miller was a partner with DLA Piper US, LLP, where he practiced since 2005. Previously, he was a partner with Alston & Bird LLP, where he practiced from 1997. He is admitted to practice in North Carolina. Mr. Miller currently serves as lead independent director of Hatteras Financial Corp., a publicly-traded mortgage REIT.</p>

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth high and low stock prices per share reported on the NYSE and dividends paid per share:

Quarter Ended	2010			2009		
	High	Low	Dividend	High	Low	Dividend
March 31	\$ 33.98	\$ 27.09	\$ 0.425	\$ 27.47	\$ 15.53	\$ 0.425
June 30	33.87	27.57	0.425	26.84	19.79	0.425
September 30	33.25	26.25	0.425	34.09	19.35	0.425
December 31	35.38	29.39	0.425	35.24	26.60	0.425

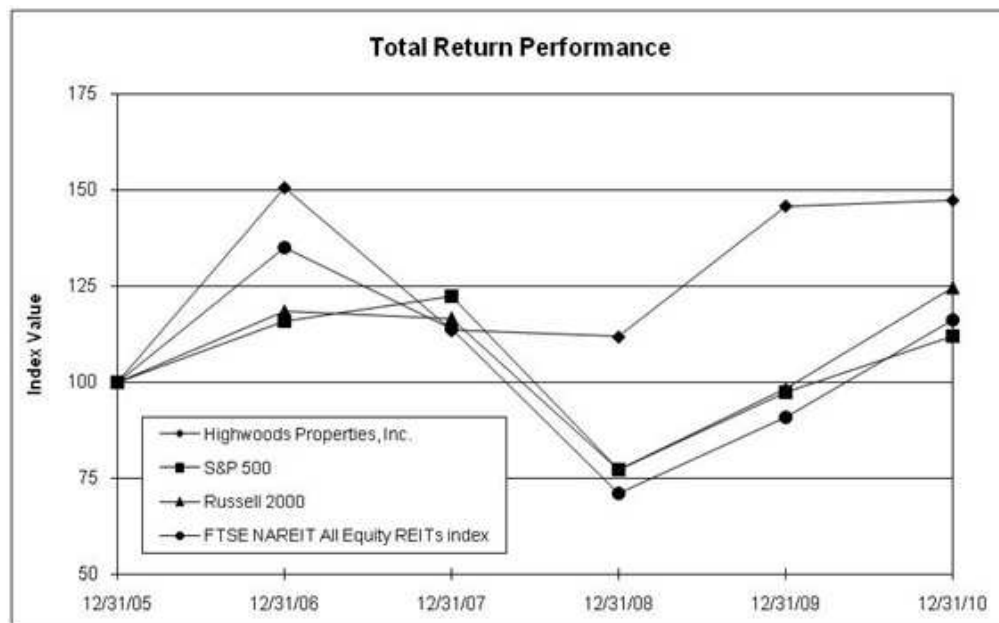
On December 31, 2010, the last reported stock price of the Common Stock on the NYSE was \$ 31.85 per share and the Company had 1,005 common stockholders of record. There is no public trading market for the Common Units. On December 31, 2010, the Operating Partnership had 116 holders of record of Common Units (other than the Company). At December 31, 2010, there were 71.7 million shares of Common Stock outstanding and 3.8 million Common Units outstanding not owned by the Company.

Because the Company is a REIT, the partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to distribute to its stockholders at least 90.0% of its REIT taxable income, excluding net capital gains. See “Item 1A. Risk Factors – Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities or future growth initiatives.”

We generally expect to use cash flows from operating activities to fund distributions. The following factors will affect such cash flows and, accordingly, influence the decisions of the Company’s Board of Directors regarding distributions:

- debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness and the availability of alternative sources of debt and equity capital and their impact on our ability to refinance existing debt and grow our business;
- scheduled increases in base rents of existing leases;
- changes in rents attributable to the renewal of existing leases or replacement leases;
- changes in occupancy rates at existing properties and execution of leases for newly acquired or developed properties;
- operating expenses;
- anticipated leasing capital expenditures attributable to the renewal of existing leases or replacement leases;
- anticipated building improvements; and
- expected cash flows from financing and investing activities.

The following stock price performance graph compares the performance of our Common Stock to the S&P 500, the Russell 2000 and the FTSE NAREIT All Equity REITs Index. The stock price performance graph assumes an investment of \$100 in our Common Stock and the three indices on December 31, 2005 and further assumes the reinvestment of all dividends. Equity REITs are defined as those that derive more than 75.0% of their income from equity investments in real estate assets. The FTSE NAREIT All Equity REITs Index includes all REITs not designated as Timber REITs listed on the NYSE, the American Stock Exchange or the NASDAQ National Market System. Stock price performance is not necessarily indicative of future results.



Index	For the Period from December 31, 2005 to December 31,				
	2006	2007	2008	2009	2010
Highwoods Properties, Inc.	150.55	113.41	111.78	145.77	147.26
S&P 500	115.79	122.16	76.96	97.33	111.99
Russell 2000	118.37	116.51	77.15	98.11	124.46
FTSE NAREIT All Equity REITs Index	135.06	113.87	70.91	90.76	116.13

The performance graph above is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish the Company's stockholders with such information and, therefore, is not deemed to be filed, or incorporated by reference in any filing, by the Company or the Operating Partnership under the Securities Act of 1933 or the Securities Exchange Act of 1934.

During 2010, cash dividends on Common Stock totaled \$1.70 per share, \$0.85 of which represented return of capital and \$0.44 represented capital gains for income tax purposes. The minimum dividend per share of Common Stock required for the Company to maintain its REIT status was \$0.32 per share in 2010.

During the fourth quarter of 2010, the Company issued an aggregate of 3,163 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

The Company has a Dividend Reinvestment and Stock Purchase Plan ("DRIP") under which holders of Common Stock may elect to automatically reinvest their dividends in additional shares of Common Stock and make optional cash payments for additional shares of Common Stock. The Company may elect to satisfy its DRIP obligations by issuing additional shares of Common Stock or causing the DRIP administrator to purchase Common Stock in the open market.

The Company has an Employee Stock Purchase Plan pursuant to which employees generally may contribute up to 25.0% of their cash compensation for the purchase of Common Stock. At the end of each three-month offering period, each participant's account balance, which includes accrued dividends, is applied to acquire shares of Common Stock at a cost that is calculated at 85.0% of the average closing price on the NYSE on the five consecutive days preceding the last day of the quarter.

Information about the Company's equity compensation plans and other related stockholder matters is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011.

ITEM 6. SELECTED FINANCIAL DATA

The operating results of the Company for the years ended December 31, 2009, 2008, 2007 and 2006 have been revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale which required discontinued operations presentation. The information in the following table should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein (\$ in thousands, except per share data):

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Rental and other revenues	\$ 463,321	\$ 450,154	\$ 445,268	\$ 412,688	\$ 384,121
Income from continuing operations	\$ 71,978	\$ 47,431	\$ 38,608	\$ 50,128	\$ 28,371
Income from continuing operations available for common stockholders	\$ 61,482	\$ 38,318	\$ 24,889	\$ 31,257	\$ 8,264
Net income	\$ 72,303	\$ 61,694	\$ 35,610	\$ 97,095	\$ 57,527
Net income available for common stockholders	\$ 61,790	\$ 51,778	\$ 22,080	\$ 74,983	\$ 34,878
Earnings per common share – basic:					
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42	\$ 0.55	\$ 0.15
Net income	\$ 0.86	\$ 0.76	\$ 0.37	\$ 1.32	\$ 0.64
Earnings per common share – diluted:					
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42	\$ 0.55	\$ 0.15
Net income	\$ 0.86	\$ 0.76	\$ 0.37	\$ 1.31	\$ 0.64
Dividends declared and paid per common share	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70

	December 31,				
	2010	2009	2008	2007	2006
Total assets	\$ 2,871,835	\$ 2,887,101	\$ 2,946,170	\$ 2,926,955	\$ 2,844,853
Mortgages and notes payable	\$ 1,522,945	\$ 1,469,155	\$ 1,604,685	\$ 1,641,987	\$ 1,465,129
Financing obligations	\$ 33,114	\$ 37,706	\$ 34,174	\$ 35,071	\$ 35,530

The operating results of the Operating Partnership for the years ended December 31, 2009, 2008, 2007 and 2006 have been revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale which required discontinued operations presentation. The information in the following table should be read in conjunction with the Operating Partnership's audited Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein (\$ in thousands, except per unit data):

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Rental and other revenues	\$ 463,321	\$ 450,154	\$ 445,268	\$ 412,688	\$ 384,121
Income from continuing operations	\$ 71,951	\$ 47,377	\$ 38,481	\$ 49,387	\$ 28,174
Income from continuing operations available for common unitholders	\$ 64,758	\$ 40,658	\$ 26,528	\$ 32,946	\$ 8,703
Net income	\$ 72,276	\$ 61,640	\$ 35,483	\$ 94,895	\$ 56,912
Net income available for common unitholders	\$ 65,083	\$ 54,921	\$ 23,530	\$ 78,454	\$ 37,441
Earnings per common unit – basic:					
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42	\$ 0.54	\$ 0.15
Net income	\$ 0.87	\$ 0.77	\$ 0.37	\$ 1.29	\$ 0.63
Earnings per common unit – diluted:					
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42	\$ 0.54	\$ 0.14
Net income	\$ 0.87	\$ 0.77	\$ 0.37	\$ 1.28	\$ 0.61
Distributions declared and paid per common unit	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70

	December 31,				
	2010	2009	2008	2007	2006
Total assets	\$ 2,870,671	\$ 2,885,738	\$ 2,944,856	\$ 2,925,804	\$ 2,837,649
Mortgages and notes payable	\$ 1,552,945	\$ 1,469,155	\$ 1,604,685	\$ 1,641,987	\$ 1,464,266
Financing obligations	\$ 33,114	\$ 37,706	\$ 34,174	\$ 35,071	\$ 35,530

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership. The Operating Partnership is managed by the Company, its sole general partner. At December 31, 2010, we owned or had an interest in 330 in-service office, industrial and retail properties, encompassing approximately 32.4 million square feet, 96 rental residential units and 26 for-sale residential condominiums, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements. As of that date, we also owned or had an interest in development land and other properties under development as described under "Item 1. Business" and "Item 2. Properties." We are based in Raleigh, NC, and our properties and development land are located in Florida, Georgia, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia.

You should read the following discussion and analysis in conjunction with the accompanying Consolidated Financial Statements and related notes contained elsewhere herein.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Annual Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Item 1. 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:

- the financial condition of our customers could deteriorate;
- we may not be able to lease or release second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- 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;
- our markets may suffer declines in economic growth;
- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in “Item 1A. Business – Risk Factors” set forth in this Annual Report. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

EXECUTIVE SUMMARY

The Company is a fully-integrated, self-administered and self-managed equity REIT and one of the largest owners and operators of office, industrial and retail properties in nine markets in the Southeastern and Midwestern United States. Our Strategic Plan focuses on:

- owning high-quality, differentiated real estate assets in the better submarkets in our core markets;
- improving the operating results of our existing properties through concentrated leasing, asset management, cost control and customer service efforts;
- developing and acquiring office properties in in-fill and central business district locations that improve the overall quality of our portfolio and generate attractive returns over the long-term for our stockholders;
- selectively disposing of properties no longer considered to be core holdings primarily due to location, age, quality and overall strategic fit; and
- maintaining a conservative, flexible balance sheet with ample liquidity to meet our funding needs and growth prospects.

While we own and operate a limited number of industrial, retail and residential properties, our operating results depend heavily on successfully leasing and operating our office properties. Economic growth and employment levels in Florida, Georgia, North Carolina and Tennessee are and will continue to be important determinative factors in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also must concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see “Item 2. Properties – Lease Expirations.” We expect average occupancy to be slightly higher in 2011 as compared to 2010.

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases signed are higher or lower than the rents under the previous leases. The average rental rate per square foot on second generation renewal and re-let leases signed in our Wholly Owned Properties compared to the rent under the previous leases (based on straight line rental rates) was slightly higher in 2010 as compared to 2009. We expect this slight improvement to continue in 2011. The annualized rental revenues from second generation leases signed during any particular year is generally less than 15% of our total annual rental revenues.

We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby the Company’s Board of Directors must approve in advance any customer who would account for more than 3% of our annualized revenues on a pro forma basis. Currently, no customer accounts for more than 3% of our annualized revenues other than the federal government, which accounts for 9.7% of our annualized revenues, and AT&T, which accounts for 3.5% of our annualized revenues. See “Item 2. Properties – Customers.”

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. From time to time, expenses also include impairments of assets held for use. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat proportionately to occupancy levels, such as common area maintenance and utilities, and expenses that do not vary based on occupancy, such as property taxes and insurance. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy, place in service or sell assets, since we depreciate our properties and related building and tenant improvement assets on a straight-line basis over a fixed life. General and administrative expenses, net of amounts capitalized, consist primarily of management and employee salaries and other personnel costs, corporate overhead and long-term incentive compensation.

We anticipate commencing up to \$200 million of new development in 2011. Any such projects would not be placed in service until 2012 or beyond. We also anticipate acquiring up to \$200 million of new properties and selling up to \$75 million of non-core properties in 2011.

We intend to maintain a conservative and flexible balance sheet that allows us to capitalize on favorable development and acquisition opportunities as they arise. As of December 31, 2010, our mortgages and notes payable represented 41.1% of the undepreciated book value of our assets. We expect this ratio to remain under 50% during 2011.

RESULTS OF OPERATIONS

Comparison of 2010 to 2009

Rental and Other Revenues

Rental and other revenues from continuing operations were 2.9% higher in 2010 as compared to 2009 primarily due to the acquisitions of an office property in Memphis, TN in 2010 and an office property in Tampa, FL in 2009, the contribution of development properties recently placed in service and slightly higher average occupancy. We expect 2011 rental and other revenues, adjusted for any discontinued operations, to increase over 2010 due to slightly higher average occupancy as a result of slowly improving economic conditions and the full year contribution of acquisitions closed and development projects delivered during 2010.

Operating Expenses

Rental property and other expenses were 1.0% higher in 2010 as compared to 2009 primarily due to our recent acquisition activity and the contribution of development properties recently placed in service, offset by lower expenses resulting from management's continuing efforts to reduce operating expenses in our same property portfolio. We expect 2011 rental property and other expenses, adjusted for any discontinued operations, to increase over 2010 due to the full year contribution of acquisitions closed and development projects delivered during 2010. Same property operating expenses are expected to be slightly higher in 2011 as compared to 2010.

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, was higher at 64.5% in 2010 as compared to 63.8% in 2009. Operating margin is expected to be similar in 2011 as compared to 2010.

Depreciation and amortization was 4.4% higher in 2010 as compared to 2009 primarily due to our recent acquisition activity and the contribution of development properties recently placed in service.

We recorded impairment of assets held for use of \$2.6 million in 2009 related to four office properties located in Winston-Salem, NC. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future.

General and administrative expenses were 10.2% lower in 2010 as compared to 2009 primarily due to lower incentive compensation, a decrease in the value of marketable securities held under our non-qualified deferred compensation plan, and lower expenses from management's continuing efforts to reduce general and administrative expenses. We anticipate continued reductions in general and administrative expenses in 2011, adjusted for changes in value of marketable securities held under our deferred compensation plan.

Other Income

Other income was \$3.9 million lower in 2010 as compared to 2009 primarily due to a decrease in the value of marketable securities held under our non-qualified deferred compensation plan and gains on debt extinguishment and favorable cash settlement of a real estate related legal claim in 2009. We anticipate other income will be slightly higher in 2011 as compared to 2010 due to the full year impact of interest income related to seller financing provided to the buyers of certain non-core assets in 2010.

Interest Expense

Interest expense was 7.6% higher in 2010 as compared to 2009 primarily due to lower capitalized interest from decreased development in process, higher average interest rates and higher fees on our new revolving credit facility partially offset by lower average debt balances and lower swap interest expense. We anticipate interest expense will increase modestly in 2011 due to slightly higher average debt balances from the assumption of debt related to the acquisition of an office property in Memphis, TN, higher average floating interest rates and higher interest expense on our new \$200.0 million bank term loan compared to our \$137.5 million term loan that is scheduled to mature later in the first quarter of 2011.

Gains on For-Sale Residential Condominiums

In 2010 and 2009, gains on for-sale residential condominiums aggregated \$0.3 million and \$0.9 million, respectively, resulting from sales of majority-owned residential condominiums. Our partner's interest in these gains was \$(0.4) million and \$(0.5) million, respectively, and was recorded as noncontrolling interests in consolidated affiliates. Our partner's estimated economic interest decreased from 14% at December 31, 2009 to 7% during the year ended December 31, 2010 due to changes in the projected timing of sales and related gains resulting in the allocation of a loss to the partner's non-controlling interest. On December 31, 2010, we acquired our partner's interest for \$0.5 million. We have 25 for-sale residential condominiums as of February 2, 2011. We anticipate these condominiums will be sold over the next 24 months.

Gains on Disposition of Investment in Unconsolidated Affiliates

Gains on disposition of investment in unconsolidated affiliates were \$25.3 million higher in 2010 as compared to 2009 due to the disposition of our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA in 2010.

Discontinued Operations

The Company classified income of \$0.3 million and \$14.3 million as discontinued operations in 2010 and 2009, respectively. These amounts relate to 1.9 million square feet of office, industrial and retail properties sold during 2010 and 2009. The \$14.3 million of income in 2009 includes impairment of \$11.0 million on certain of these properties and gains on disposition of \$21.5 million on certain other of these properties.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$1.6 million lower in 2010 as compared to 2009 due to the disposition of our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA in 2010 and our proportionate share of a gain on disposition of property in one of our joint ventures in 2009. Equity in earnings of unconsolidated affiliates is expected to be lower in 2011 compared to 2010 due to the full year impact of the Des Moines sale and lower average occupancy in our remaining joint ventures.

Comparison of 2009 to 2008

Rental and Other Revenues

Rental and other revenues from continuing operations were 1.1% higher in 2009 as compared to 2008 primarily due to the contribution of development properties placed in service in 2008 and 2009, the acquisitions of an office property in Memphis, TN in 2008 and an office property in Tampa, FL in 2009 and higher average rental rates, partly offset by lower revenues in our same property portfolio from lower average occupancy in 2009.

Operating Expenses

Rental property and other expenses were 1.8% higher in 2009 as compared to 2008 primarily due to our acquisition activity and the contribution of development properties placed in service in 2008 and 2009, partly offset by lower expenses from management's efforts to reduce operating expenses in our same property portfolio. The overall reduction in same property operating expenses was partly offset by higher real estate taxes and utility rate increases.

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, was slightly lower at 63.8% in 2009 as compared to 64.1% in 2008.

Depreciation and amortization was 5.9% higher in 2009 as compared to 2008 primarily due to our acquisition activity and the contribution of development properties placed in service in 2008 and 2009.

We recorded impairment of assets held for use of \$2.6 million and \$3.4 million in 2009 and 2008, respectively, related to four office properties located in Winston-Salem, NC.

General and administrative expenses were 3.6% lower in 2009 as compared to 2008 primarily due to lower salaries, benefits and incentive compensation mostly from reduced headcount and lower expenses from unsuccessful development projects. Partly offsetting this decrease was an increase in the value of marketable securities held under our deferred compensation plan and lower capitalization of development and leasing costs.

Other Income

Other income was \$5.7 million higher in 2009 as compared to 2008 primarily due to the year-over-year change in the valuation adjustment of marketable securities held under our non-qualified deferred compensation plan, favorable cash settlement of a real estate-related legal claim and gains on the extinguishment of certain outstanding bonds.

Interest Expense

Interest expense was 11.9% lower in 2009 as compared to 2008 primarily due to lower average outstanding borrowings during 2009 mostly due to the application of proceeds of our sales of Common Stock in September 2008 and June 2009 to pay down debt and lower average floating interest rates, partly offset by lower capitalized interest resulting from decreased development in process.

Gains on For-Sale Residential Condominiums

In 2009 and 2008, gains on for-sale residential condominiums aggregated \$0.9 million and \$5.6 million, respectively, resulting from sales of majority-owned residential condominiums and related forfeitures of earnest money deposits. Our partner's interest in these gains was \$(0.5) million and \$1.3 million, respectively. Our partner's estimated economic interest decreased from 25% at December 31, 2008 to 14% at December 31, 2009 due to changes in the projected timing of sales and related gains resulting in the allocation of a loss to the partner's non-controlling interest in 2009.

Discontinued Operations

The Company classified income/(loss) of \$14.3 million and \$(3.0) million as discontinued operations in 2009 and 2008, respectively. These amounts relate to 2.6 million square feet of office, industrial and retail properties and 13 rental residential units sold during 2010, 2009 and 2008. These balances include impairment of \$11.0 million and \$29.4 million on certain of these properties and \$21.5 million and \$18.5 million of gains on disposition of certain other of these properties in 2009 and 2008, respectively.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership; Net Income Attributable to Noncontrolling Interests in Consolidated Affiliates

The Company's net income attributable to noncontrolling interests in the Operating Partnership was \$1.6 million higher in 2009 as compared to 2008 primarily due to higher income from continuing operations, after preferred equity distributions, of the Operating Partnership.

Net income attributable to noncontrolling interests in consolidated affiliates was \$2.0 million lower in 2009 as compared to 2008 primarily due to lower gains on for-sale residential condominiums.

Dividends on Preferred Equity

Dividends on preferred equity were 31.6% lower in 2009 as compared to 2008 due to the retirement of \$53.8 million of preferred equity in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our goal is to maintain a conservative and flexible balance sheet with access to multiple sources of debt and equity capital and sufficient availability under our credit facilities. We generally use rents received from customers to fund our operating expenses, capital expenditures and distributions. To fund property acquisitions, development activity or building renovations and repay debt upon maturity, we may use current cash balances, sell assets, obtain new debt and/or issue equity. Our debt generally consists of mortgage debt, unsecured debt securities and borrowings under our secured and unsecured credit facilities.

Statements of Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company's cash flows (\$ in thousands):

	Years Ended December 31,		Change
	2010	2009	
Cash Provided By Operating Activities	\$ 190,537	\$ 189,120	\$ 1,417
Cash (Used In) Investing Activities	(78,155)	(61,824)	(16,331)
Cash (Used In) Financing Activities	(121,875)	(117,354)	(4,521)
Total Cash Flows	\$ (9,493)	\$ 9,942	\$ (19,435)

In calculating cash flow from operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. As a result, we have historically generated a positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully above under "Results of Operations," changes in receivables and payables, and net additions or decreases in our overall portfolio, which affect the amount of depreciation and amortization expense.

Cash used in or provided by investing activities generally relates to capitalized costs incurred for leasing and major building improvements and our acquisition, development, disposition and joint venture capital activity. During periods of significant net acquisition and/or development activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically consists of cash received upon the sale of properties and distributions of capital from our joint ventures.

Cash used in or provided by financing activities generally relates to distributions, incurrence and repayment of debt and issuances, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. As discussed previously, we use a significant amount of our cash to fund distributions. Whether or not we have increases in the outstanding balances of debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We generally use our revolving credit facility for working capital purposes, which means that during any given period, in order to minimize interest expense, we may record significant repayments and borrowings under our revolving credit facility.

Cash provided by operating activities was \$1.4 million higher in 2010 as compared to 2009 primarily due to cash rents from recently acquired buildings and development properties recently placed in service, partly offset by the impact of dispositions and lower cash rents in our same property portfolio.

Cash used in investing activities was \$16.3 million higher in 2010 as compared to 2009 primarily due to higher leasing capital expenditures, higher acquisitions and lower dispositions in 2010, partly offset by lower development activities in 2010.

Cash used in financing activities was \$4.5 million higher in 2010 as compared to 2009 primarily due to higher dividends resulting from a higher number of outstanding shares of Common Stock in 2010 from our May 2009 equity offering.

Capitalization

The following table sets forth the Company's capitalization (in thousands, except per share amounts):

	December 31,	
	2010	2009
Mortgages and notes payable, at recorded book value	\$ 1,522,945	\$ 1,469,155
Financing obligations	\$ 33,114	\$ 37,706
Preferred Stock, at liquidation value	\$ 81,592	\$ 81,592
Common Stock outstanding	71,690	71,285
Common Units outstanding (not owned by the Company)	3,794	3,891
Per share stock price at year end	\$ 31.85	\$ 33.35
Market value of Common Stock and Common Units	\$ 2,404,165	\$ 2,507,120
Total market capitalization	\$ 4,041,816	\$ 4,095,573

Our mortgages and notes payable represented 37.7% of our total market capitalization and were comprised of \$754.4 million of secured indebtedness with a weighted average interest rate of 6.14% and \$768.5 million of unsecured indebtedness with a weighted average interest rate of 5.35%. At December 31, 2010, our outstanding mortgages and notes payable and financing obligations were secured by real estate assets with an aggregate undepreciated book value of \$1.2 billion.

Current and Future Cash Needs

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our existing revolving credit facility and secured construction credit facility (which had \$379.5 million and \$17.9 million of availability, respectively, at February 2, 2011). Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities, together with cash available from borrowings under our credit facilities, will be adequate to meet our short-term liquidity requirements.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity (including mortgage debt, our revolving and construction credit facilities, term loans and other unsecured debt), funding of existing and new building development or land infrastructure projects and funding acquisitions of buildings and development land. Additionally, we may, from time to time, retire some or all of our remaining outstanding Preferred Stock and/or unsecured debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

We expect to meet our liquidity needs through a combination of:

- cash flow from operating activities;
- borrowings under our credit facilities;
- the issuance of unsecured debt;
- the issuance of secured debt;
- the issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

Distributions

To maintain its qualification as a REIT, the Company must pay dividends to stockholders that are at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to pay such dividends. The Company's REIT taxable income, as determined by the federal tax laws, does not equal its net income under US generally accepted accounting principles ("GAAP"). In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders.

Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities or future growth initiatives. The amount of future distributions that will be made is at the discretion of the Company's Board of Directors. For a discussion of the factors that will influence decisions of the Board of Directors regarding distributions, see "Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities."

Financing Activity

Our \$400.0 million unsecured revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional \$50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There was \$30.0 million and \$20.0 million outstanding under our revolving credit facility at December 31, 2010 and February 2, 2011, respectively. At both December 31, 2010 and February 2, 2011, we had \$0.5 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2010 and February 2, 2011 was \$369.5 million and \$379.5 million, respectively.

Our \$70.0 million secured construction facility, of which \$52.1 million was outstanding at December 31, 2010, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points. This facility had \$17.9 million of availability at December 31, 2010 and February 2, 2011.

On February 2, 2011, we obtained a \$200.0 million, five-year unsecured bank term loan bearing interest of LIBOR plus 220 basis points. The funding of this loan will occur on February 25, 2011 and the proceeds will be used on such date to pay off at maturity a \$137.5 million unsecured bank term loan, amounts then outstanding under our revolving credit facility and for general corporate purposes.

In 2010, we repaid \$10.0 million of our \$20.0 million, three-year unsecured term loan. Additionally, we repaid the \$5.8 million remaining balance then outstanding on the mortgage payable secured by our 96 rental residential units to unencumber these assets for a planned development project. We incurred a penalty of \$0.6 million related to this early repayment, which is included in loss on debt extinguishment in 2010.

We regularly evaluate the financial condition of the lenders that participate in our credit facilities using publicly available information. Based on this review, we currently expect our lenders, which are major financial institutions, to perform their obligations under our existing facilities.

Covenant Compliance

We are currently in compliance with the covenants and other requirements with respect to our outstanding debt. Although we expect to remain in compliance with these covenants and ratios for at least the next year, depending upon our future operating performance, property and financing transactions and general economic conditions, we cannot assure you that we will continue to be in compliance.

Our revolving credit facility and bank terms require us to comply with customary operating covenants and various financial requirements. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has \$391.0 million carrying amount of 2017 bonds outstanding and \$200.0 million carrying amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Contractual Obligations

The following table sets forth a summary regarding our known contractual obligations, including required interest payments for those items that are interest bearing, at December 31, 2010 (\$ in thousands):

	Total	Amounts due during years ending December 31,					Thereafter
		2011	2012	2013	2014	2015	
Mortgages and Notes Payable:							
Principal payments (1)	\$ 1,522,945	\$ 201,375	\$ 224,649	\$ 272,922	\$ 34,841	\$ 42,005	\$ 747,153
Interest payments	382,826	85,525	69,467	61,062	51,703	51,334	63,735
Financing Obligations:							
SF-HIW Harborview Plaza, LP financing obligation	10,232	—	—	—	10,232	—	—
Tax increment financing bond	14,258	1,193	1,277	1,365	1,460	1,561	7,402
Capitalized ground lease obligation (2)	1,240	—	—	—	—	1,240	—
Interest on financing obligations (3)	5,684	1,042	963	880	791	683	1,325
Capitalized Lease Obligations	175	125	42	8	—	—	—
Purchase Obligations:							
Completion contracts (4)	8,637	8,637	—	—	—	—	—
Operating Lease Obligations:							
Operating ground leases	35,757	1,129	1,150	1,171	1,193	1,217	29,897
Other Long Term Obligations:							
DLF I obligation	1,388	567	578	243	—	—	—
Total	<u>\$ 1,983,142</u>	<u>\$ 299,593</u>	<u>\$ 298,126</u>	<u>\$ 337,651</u>	<u>\$ 100,220</u>	<u>\$ 98,040</u>	<u>\$ 849,512</u>

(1) Does not reflect a one-year extension option related to outstanding amounts on our \$70.0 million secured construction facility.

(2) Assumes that we will exercise our purchase option in 2015. The ground lease contractually extends through 2022.

(3) Does not include interest on the SF-HIW Harborview Plaza, LP financing obligation, which cannot be reasonably estimated for future periods. The interest expense on this financing obligation was \$1.1 million, \$0.8 million and \$1.6 million in 2010, 2009 and 2008, respectively.

(4) Relates to payments to be made under current contracts for various development/construction projects.

The interest payments due on mortgages and notes payable are based on the stated rates for the fixed rate debt and on the rates in effect at December 31, 2010 for the variable rate debt. The weighted average interest rate on the fixed and variable rate debt was 6.43% and 1.51%, respectively, at December 31, 2010. For additional information about our mortgages and notes payable, see Note 6 to our Consolidated Financial Statements.

For additional information about our financing obligations, see Note 8 to our Consolidated Financial Statements. For additional information about purchase obligations, operating lease obligations and other long term obligations, see Note 9 to our Consolidated Financial Statements.

Off Balance Sheet Arrangements

We generally account for our investments in less than majority owned joint ventures, partnerships and limited liability companies using the equity method. As a result, these joint ventures are not included in our Consolidated Financial Statements, other than as investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates.

At December 31, 2010, our unconsolidated joint ventures had \$672.7 million of total assets and \$451.1 million of total liabilities. Our weighted average equity interest based on the total assets of these unconsolidated joint ventures was 34.0%. During 2010, these unconsolidated joint ventures earned \$3.6 million of aggregate net income, of which our share was \$1.5 million. Additionally, we recorded \$2.4 million of purchase accounting and other adjustments related primarily to management and leasing fees in equity in earnings of unconsolidated affiliates. For additional information about our unconsolidated joint venture activity, see Note 4 to our Consolidated Financial Statements.

At December 31, 2010, our unconsolidated joint ventures had \$424.8 million of outstanding mortgage debt. The following table sets forth the scheduled maturities of the Company's proportionate share of the outstanding debt of its unconsolidated joint ventures at December 31, 2010 (\$ in thousands):

2011	\$ 4,124
2012	22,901
2013	23,830
2014 (1)	64,475
2015	1,139
Thereafter (2)	34,229
	<u>\$ 150,698</u>

(1) Includes our 22.81% portion of a \$38.7 million mortgage payable which is callable at the lender's sole discretion on either of the following call dates: May 1, 2014, 2019 or 2024, by giving written notice at least six months prior to the elected call date.

(2) Includes our 12.5% portion of a \$10.6 million mortgage payable related to an equity method investee owned directly by the Company, which is included in the Company's Consolidated Financial Statements but not included in the Operating Partnership's Consolidated Financial Statements.

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.

During the second quarter of 2010, we sold our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA. The assets in the joint ventures included 1.7 million square feet of office, 788,000 square feet of industrial and 45,000 square feet of retail properties, as well as 418 apartment units. In connection with the closing, we received \$15.0 million in cash. We had a negative book basis in certain of the joint ventures, primarily as a result of prior cash distributions to the partners. Accordingly, we recorded gain on disposition of investment in unconsolidated affiliates of \$25.3 million in the second quarter of 2010. As of the closing date, the joint ventures had approximately \$170 million of secured debt, which was non-recourse to us except (1) in the case of customary exceptions pertaining to matters such as misuse of funds, borrower bankruptcy, unpermitted transfers, environmental conditions and material misrepresentations and (2) approximately \$9.0 million of direct and indirect guarantees. We have been released by the applicable lenders from all such direct and indirect guarantees and we have no ongoing lender liability relating to such customary exceptions to non-recourse liability with respect to most, but not all, of the debt. The buyer has agreed to indemnify and hold us harmless from any and all future losses that we suffer as a result of our prior investment in the joint ventures (other than losses directly resulting from our acts or omissions). In the event we are exposed to any such future loss, our financial condition and operating results would not be adversely affected unless the buyer defaults on its indemnification obligation.

In connection with the disposition of six industrial properties in Piedmont Triad, NC in the second quarter of 2010, we entered into a limited rent guarantee agreement with the buyer relating to an existing 237,500 square foot lease with one customer, who has leased space in the properties for 14 years. This agreement guarantees the payment of rent for an approximate two-year period from March 2011 through June 2013 in the event the customer exercises its limited termination right. As of December 31, 2010, our maximum exposure under this rent guarantee agreement was approximately \$0.7 million. No accrual has been recorded for this guarantee because we have concluded that a loss is not probable.

Financing Arrangements

- SF-HIW Harborview Plaza, LP (“Harborview”)

Our joint venture partner in Harborview has the right to put its 80.0% equity interest in the joint venture to us in exchange for cash at any time during the one-year period commencing September 11, 2014. The value of the 80.0% equity interest will be determined at the time that our partner elects to exercise its put right, if ever, based upon the then fair market value of Harborview LP's assets and liabilities, less 3.0%, which amount was intended to cover the normal costs of a sale transaction. Because of the put option, this transaction is accounted for as a financing transaction. Accordingly, the assets, liabilities and operations related to Harborview Plaza, the property owned by Harborview LP remain in our Consolidated Financial Statements.

As a result, we established a financing obligation equal to the \$12.7 million net equity contributed by the other partner. At the end of each reporting period, the balance of the gross financing obligation is adjusted to equal the greater of the original financing obligation or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was \$10.2 million and \$12.2 million at December 31, 2010 and 2009, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books. At such time as the put option expires or is otherwise terminated, we will record the transaction as a partial sale and recognize gain accordingly.

- Tax Increment Financing Bond

In connection with tax increment financing for construction of a public garage related to a wholly owned office building, we are obligated to pay fixed special assessments over a 20-year period ending in 2019. The net present value of these assessments, discounted at 6.93% at the inception of the obligation, which represents the interest rate on the underlying bond financing, is recorded as a financing obligation. We receive special tax revenues and property tax rebates recorded in interest and other income, which are intended, but not guaranteed, to provide funds to pay the special assessments. We acquired the underlying bond in a privately negotiated transaction in 2007 (see Note 11 to our Consolidated Financial Statements).

- Capitalized Ground Lease Obligation

The capitalized ground lease obligation represents an obligation to the lessor of land on which we constructed a building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated at the inception of the lease using a discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes into interest expense for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

Interest Rate Hedging Activities

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear 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 although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock or similar agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. At December 31, 2010, we have no outstanding interest rate hedge contracts.

CRITICAL ACCOUNTING ESTIMATES

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 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 policies used in the preparation of our Consolidated Financial Statements are described in Note 1 to our Consolidated Financial Statements for the year ended December 31, 2010. However, certain of our significant accounting policies contain an increased level of assumptions used or estimates made in determining their impact in our Consolidated Financial Statements. Management has reviewed and determined the appropriateness of our critical accounting policies and estimates with the audit committee of the Company's Board of Directors.

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

- Real estate and related assets;
- Impairment of long-lived assets and investments in unconsolidated affiliates;
- Sales of real estate;
- Rental and other revenues; and
- Allowance for doubtful accounts.

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years.

Expenditures directly related to the development and construction of real estate assets are included in net real estate assets and are stated at depreciated cost. Development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs on qualifying assets, real estate taxes, development personnel salaries and related costs and other costs incurred during the period of development. Interest and other carrying costs are capitalized until the building is ready for its intended use, but not later than one year from cessation of major construction activity. We consider a construction project as substantially completed and ready for its intended use upon the completion of tenant improvements. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction.

Expenditures directly related to the leasing of properties are included in deferred financing and leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties for new leases or lease renewals are capitalized. Internal leasing costs include primarily compensation, benefits and other costs, such as legal fees related to leasing activities, which are incurred in connection with successfully securing leases of properties. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases, which generally are from three to 10 years. Estimated costs related to unsuccessful activities are expensed as incurred.

We record liabilities for the performance of asset retirement activities when the obligation to perform such activities is unconditional, whether or not the timing or method of settlement of the obligation may be conditional on a future event.

Upon the acquisition of real estate assets, we assess the fair value of acquired tangible assets such as land, buildings and tenant improvements, intangible assets such as above and below market leases, acquired in-place leases, customer relationships and other identified intangible assets and assumed liabilities. We assess fair value based on estimated cash flow projections that utilize discount and/or capitalization rates as well as available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The above and below market rate portions of leases acquired in connection with property acquisitions are recorded in deferred financing and leasing costs or in accounts payable, accrued expenses and other liabilities at their fair value. Fair value is calculated as the present value of the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) our estimate of fair market lease rates for each corresponding in-place lease, using a discount rate that reflects the risks associated with the leases acquired and measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases and the accrued below-market lease values are amortized as an increase to base rental revenue over the remaining term of the respective leases and any below market option periods.

In-place leases acquired are recorded at their fair value in deferred financing and leasing costs and are amortized to depreciation and amortization expense over the remaining term of the respective lease. The value of in-place leases is based on our evaluation of the specific characteristics of each customer's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions, the customer's credit quality and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider tenant improvements, leasing commissions and legal and other related expenses.

Real estate and other assets are classified as long-lived assets held for use or as long-lived assets held for sale. Real estate is classified as held for sale when the Company's Board of Directors, or its investment committee has approved the sale of the asset, a legally enforceable contract has been executed and the buyer's due diligence period has expired.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances (such as a significant decline in occupancy, identification of materially adverse legal or environmental factors, change in our designation of an asset to non-core which impacts the anticipated holding period or market value less than cost) indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis is generally performed at the property level, except when an asset is part of an interdependent group (e.g. office park) and consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated 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, costs to operate each property and expected ownership periods. For properties under development, the cash flows are based on expected service potential of the asset (group) when development is substantially complete.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

We record assets held for sale (including for-sale residential condominiums) at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer, less costs to sell. The impairment loss is the amount by which the carrying amount exceeds the estimated fair value.

We analyze our investments in unconsolidated affiliates for impairment. Such analysis consists of determining whether an expected loss in market value of an investment is other than temporary by evaluating the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investee, and our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value. As the factors used in this analysis are difficult to predict and are subject to future events that may alter our assumptions, we may be required to recognize future impairment losses on our investments in unconsolidated affiliates.

Sales of Real Estate

For sales transactions meeting the requirements for full profit recognition, the related assets and liabilities are removed from the balance sheet and the resultant gain or loss is recorded in the period the transaction closes. For sales transactions with continuing involvement after the sale, if the continuing involvement with the property is limited by the terms of the sales contract, profit is recognized at the time of sale and is reduced by the maximum exposure to loss related to the nature of the continuing involvement. Sales to entities in which we have or receive an interest are accounted for using partial sale accounting.

For transactions that do not meet the criteria for a sale, we evaluate the nature of the continuing involvement, including put and call provisions, if present, and account for the transaction as a financing arrangement, profit-sharing arrangement, leasing arrangement or other alternate method of accounting, rather than as a sale, based on the nature and extent of the continuing involvement. Some transactions may have numerous forms of continuing involvement. In those cases, we determine which method is most appropriate based on the substance of the transaction.

If we have an obligation to repurchase the property at a higher price or at a future indeterminable value (such as fair market value), or we guarantee the return of the buyer's investment or a return on that investment for an extended period, we account for such transaction as a financing arrangement. For transactions treated as financing arrangements, we record the amounts received from the buyer as a financing obligation and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are reflected as interest expense on the financing obligation. If the transaction includes an obligation or option to repurchase the asset at a higher price, additional interest is recorded to accrete the liability to the repurchase price. For options or obligations to repurchase the asset at fair market value at the end of each reporting period, the balance of the liability is adjusted to equal the then current fair value to the extent fair value exceeds the original financing obligation. The corresponding debit or credit is recorded to a related discount account and the revised discount is amortized over the expected term until termination of the option or obligation. If it is unlikely such option will be exercised, the transaction is accounted for under the deposit method or profit-sharing method. If we have an obligation or option to repurchase at a lower price, the transaction is accounted for as a leasing arrangement. At such time as a repurchase obligation expires, a sale is recorded and gain recognized.

If we retain an interest in the buyer and provide certain rent guarantees or other forms of support where the maximum exposure to loss exceeds the gain, we account for such transaction as a profit-sharing arrangement. For transactions treated as profit-sharing arrangements, we record a profit-sharing obligation for the amount of equity contributed by the other partner and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are allocated to the other partner for its percentage interest and reflected as "co-venture expense" in our Consolidated Financial Statements. In future periods, a sale is recorded and profit is recognized when the remaining maximum exposure to loss is reduced below the amount of gain deferred.

Rental and Other Revenues

Minimum contractual rents from leases are 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. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue, such as percentage rent, is accrued when the contingency is removed. Termination fee income is recognized as revenue at the later of when the customer has vacated the space or the lease has expired and the following conditions are met: a fully executed lease termination agreement has been delivered; the amount of the fee is determinable; and collectability of the fee is reasonably assured. Rental revenue reductions related to co-tenancy lease provisions, if any, are accrued when events have occurred that trigger such provisions.

Property operating cost recoveries from customers (“cost reimbursements”) are determined on a calendar year and a lease-by-lease basis. The most common types of cost reimbursements in our leases are common area maintenance (“CAM”) and real estate taxes, for which the customer pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of a base year. The computation of property operating cost recovery income from customers is complex and involves numerous judgments, including the interpretation of terms and other customer lease provisions. Leases are not uniform in dealing with such cost reimbursements and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected with respect to the cost reimbursements. After the end of the calendar year, we compute each customer’s final cost reimbursements and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Allowance for Doubtful Accounts

Accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and adjust the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of receivables prove incorrect, we could experience losses in excess of our allowance for doubtful accounts. The allowance and its related receivable are written-off when we have concluded there is a low probability of collection.

NON-GAAP MEASURES - FFO AND NOI

The Company believes that Funds from Operations (“FFO”) and FFO per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because FFO and FFO per share calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, they facilitate comparisons of operating performance between periods and between other REITs. Management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient on a standalone basis. As a result, management believes that the use of FFO and FFO per share, together with the required GAAP presentations, provide a more complete understanding of the Company’s performance relative to its competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO and FFO per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining the Company’s operating performance because FFO and FFO per share include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders’ benefit. Accordingly, FFO and FFO per share should never be considered as alternatives to net income or net income per share as indicators of the Company’s operating performance.

The Company’s presentation of FFO is consistent with FFO as defined by the National Association of Real Estate Investment Trusts (“NAREIT”), which is calculated as follows:

- Net income/(loss) computed in accordance with GAAP;
- Less dividends to holders of Preferred Stock and less excess of Preferred Stock redemption cost over carrying value;
- Less net income attributable to noncontrolling interests in consolidated affiliates;
- Plus depreciation and amortization of real estate assets;
- Less gains, or plus losses, from sales of depreciable operating properties (but excluding impairment losses) and excluding items that are classified as extraordinary items under GAAP;
- 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 and gains/(losses) on sales and noncontrolling interests in consolidated affiliates, related to discontinued operations.

In calculating FFO, the Company adds back net income attributable to noncontrolling interests in the Operating Partnership, which the Company believes is consistent with standard industry practice for REITs that operate through an UPREIT structure. The Company believes that it is important to present FFO on an as-converted basis since all of the Common Units not owned by the Company are redeemable on a one-for-one basis for shares of its Common Stock.

Other REITs may not define FFO in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than we do.

The Company's FFO and FFO per share are summarized in the following table (\$ in thousands, except per share amounts):

	Years Ended December 31,					
	2010		2009		2008	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Funds from operations:						
Net income	\$ 72,303		\$ 61,694		\$ 35,610	
Net (income) attributable to noncontrolling interests in the Operating Partnership	(3,320)		(3,197)		(1,577)	
Net (income) attributable to noncontrolling interests in consolidated affiliates	(485)		(11)		(2,041)	
Dividends on preferred stock	(6,708)		(6,708)		(9,804)	
Excess of preferred stock redemption/repurchase cost over carrying value	—		—		(108)	
Net income available for common stockholders	61,790	\$ 0.86	51,778	\$ 0.76	22,080	\$ 0.37
Add/(Deduct):						
Depreciation and amortization of real estate assets	134,058	1.78	128,130	1.77	120,890	1.90
(Gains) on disposition of depreciable properties	(74)	—	(127)	—	(126)	—
(Gains) on disposition of investment in unconsolidated affiliates	(25,330)	(0.34)	—	—	—	—
Net income attributable to noncontrolling interests in the Operating Partnership	3,320	—	3,197	—	1,577	—
Unconsolidated affiliates:						
Depreciation and amortization of real estate assets	10,471	0.14	12,839	0.18	12,751	0.20
(Gains) on disposition of depreciable properties	—	—	(781)	(0.01)	—	—
Discontinued operations:						
Depreciation and amortization of real estate assets	365	—	1,855	0.03	4,785	0.08
(Gains) on disposition of depreciable properties	(174)	—	(21,843)	(0.30)	(18,485)	(0.29)
Funds from operations	<u>\$ 184,426</u>	<u>\$ 2.44</u>	<u>\$ 175,048</u>	<u>\$ 2.43</u>	<u>\$ 143,472</u>	<u>\$ 2.26</u>
Weighted average shares outstanding (1)	<u>75,578</u>		<u>72,079</u>		<u>63,492</u>	

(1) Includes assumed conversion of all potentially dilutive Common Stock equivalents.

In addition, the Company believes net operating income from continuing operations ("NOI") and same property NOI are beneficial to management and investors and are important indicators of the performance of any equity REIT. Management believes that NOI is a useful supplemental measure of the Company's property operating performance because it provides a performance measure of the revenues and expenses directly involved in owning real estate assets and provides a perspective not immediately apparent from net income or FFO. The Company defines NOI as rental and other revenues from continuing operations, less rental property and other expenses from continuing operations. The Company defines same property NOI as NOI for the Company's in-service properties that were wholly-owned during the entirety of the periods presented. Other REITs may use different methodologies to calculate NOI and same property NOI and accordingly the Company's NOI and same property NOI may not be comparable to other REITs.

The following table sets forth the Company's NOI and same property NOI:

	Years Ended December 31,	
	2010	2009
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	\$ 42,477	\$ 40,822
Other income	(5,657)	(9,549)
Interest expense	93,372	86,805
General and administrative expense	32,948	36,682
Impairment of assets held for use	—	2,554
Depreciation and amortization expense	135,793	130,028
Net operating income from continuing operations	298,933	287,342
Less – non same property and other net operating income	28,148	16,651
Total same property net operating income from continuing operations	\$ 270,785	\$ 270,691
Rental and other revenues	\$ 463,321	\$ 450,154
Rental property and other expenses	164,388	162,812
Total net operating income from continuing operations	298,933	287,342
Less – non same property and other net operating income	28,148	16,651
Total same property net operating income from continuing operations	\$ 270,785	\$ 270,691
Total same property net operating income from continuing operations	\$ 270,785	\$ 270,691
Less – straight line rent and lease termination fees	9,599	1,775
Same property cash net operating income from continuing operations	\$ 261,186	\$ 268,916

ITEM 7A. 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. Actual future results may differ materially from those presented. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” and the Notes to Consolidated Financial Statements for a description of our accounting policies and other information related to these financial instruments.

We borrow funds at a combination of fixed and variable rates. Our debt consists of secured and unsecured long-term financings, unsecured debt securities, loans and credit facilities, which typically bear interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are 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 generally do not hold or issue these derivative contracts for trading or speculative purposes.

At December 31, 2010, we had \$1,295.8 million principal amount of fixed rate debt outstanding. The estimated aggregate fair market value of this debt at December 31, 2010 was \$1,353.8 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt at December 31, 2010 would have been approximately \$52.0 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt at December 31, 2010 would have been approximately \$55.0 million higher.

At December 31, 2010, we had \$229.6 million principal amount of variable rate debt outstanding. The estimated aggregate fair market value of this debt at December 31, 2010 was \$227.7 million. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower at December 31, 2010, our interest expense relating to this debt would have decreased or increased by approximately \$2.3 million.

We have no outstanding interest rate hedge contracts at December 31, 2010.

ITEM 8. FINANCIAL STATEMENTS

See page 52 for Index to Consolidated Financial Statements of Highwoods Properties, Inc. and Highwoods Realty Limited Partnership.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

GENERAL

The purpose of this section is to discuss our controls and procedures. The statements in this section represent the conclusions of Edward J. Fritsch, the Company's President and Chief Executive Officer ("CEO"), and Terry L. Stevens, the Company's Senior Vice President and Chief Financial Officer ("CFO").

The CEO and CFO evaluations of our controls and procedures include a review of the controls' objectives and design, the controls' implementation by us and the effect of the controls on the information generated for use in this Annual Report. We seek to identify data errors, control problems or acts of fraud and confirm that appropriate corrective action, including process improvements, is undertaken. Our controls and procedures are also evaluated on an ongoing basis by or through the following:

- activities undertaken and reports issued by employees and third parties responsible for testing our internal control over financial reporting;
- quarterly sub-certifications by representatives from appropriate business and accounting functions to support the CEO's and CFO's evaluations of our controls and procedures;
- other personnel in our finance and accounting organization;
- members of our internal disclosure committee; and
- members of the audit committee of the Company's Board of Directors.

We do not expect that our controls and procedures will prevent all errors 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 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, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a 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.

MANAGEMENT'S ANNUAL REPORT ON THE COMPANY'S INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company is required to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting at December 31, 2010 based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2010, the Company's internal control over financial reporting was effective. Deloitte & Touche LLP, our independent registered public accounting firm, has issued their attestation report, which is included below, on the effectiveness of the Company's internal control over financial reporting at December 31, 2010.

MANAGEMENT'S ANNUAL REPORT ON THE OPERATING PARTNERSHIP'S INTERNAL CONTROL OVER FINANCIAL REPORTING

The Operating Partnership is also required to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Operating Partnership's internal control over financial reporting at December 31, 2010 based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2010, the Operating Partnership's internal control over financial reporting was effective. SEC rules do not require us to obtain an attestation report of Deloitte & Touche LLP on the effectiveness of the Operating Partnership's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Highwoods Properties, Inc.
Raleigh, North Carolina

We have audited the internal control over financial reporting of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on the Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2010 of the Company and our report dated February 9, 2011 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 9, 2011

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2010 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in the Operating Partnership's internal control over financial reporting during the fourth quarter of 2010 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

SEC rules also require us to 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. As defined in Rule 13a-15(e) under the Exchange Act, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosure. The Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective at the end of the period covered by this Annual Report. The Company's CEO and CFO also concluded that the Operating Partnership's disclosure controls and procedures were effective at the end of the period covered by this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about the Company's executive officers and directors and the code of ethics that applies to the Company's chief executive officer and senior financial officers, which is posted on our website, is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011. See Item X in Part I of this Annual Report for biographical information regarding the Company's executive officers. The Company is the sole general partner of the Operating Partnership.

ITEM 11. EXECUTIVE COMPENSATION

Information about the compensation of the Company's directors and executive officers is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information about the beneficial ownership of Common Stock and the Company's equity compensation plans is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information about certain relationships and related transactions and the independence of the Company's directors is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about fees paid to and services provided by our independent registered public accounting firm is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 12, 2011.

PART IV**ITEM 15. EXHIBITS****FINANCIAL STATEMENTS**

Reference is made to the Index of Financial Statements on page 52 for a list of the consolidated financial statements of Highwoods Properties, Inc. and Highwoods Realty Limited Partnership included in this report.

EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Charter of the Company (filed as part of the Company's Current Report on Form 8-K dated May 15, 2008)
3.2	Amended and Restated Bylaws of the Company (filed as part of the Company's Current Report on Form 8-K dated May 15, 2008)
4	Indenture among the Operating Partnership, the Company and First Union National Bank of North Carolina dated as of December 1, 1996 (filed as part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996)
10.1	Second Restated Agreement of Limited Partnership, dated as of January 1, 2000, of the Operating Partnership (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2004)
10.2	Amendment No. 1, dated as of July 22, 2004, to the Second Restated Agreement of Limited Partnership, dated as of January 1, 2000, of the Operating Partnership (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2004)
10.3	2009 Long-Term Equity Incentive Plan (filed as part of the Company's Current Report on Form 8-K dated May 13, 2009)
10.4	Form of warrants to purchase Common Stock of the Company (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1997)
10.5	Credit Agreement, dated as of December 21, 2009, by and among the Company, the Operating Partnership and the Subsidiaries named therein and the Lenders named therein (filed as part of the Company's Current Report on Form 8-K dated December 21, 2009)
10.6	Highwoods Properties, Inc. Retirement Plan, effective as of March 1, 2006 (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.7	Amended and Restated Executive Supplemental Employment Agreement, dated as of April 13, 2007, between the Company and Edward J. Fritsch (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2008)
10.8	Amended and Restated Executive Supplemental Employment Agreement, dated as of April 13, 2007, between the Company and Michael E. Harris (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2008)
10.9	Amended and Restated Executive Supplemental Employment Agreement, dated as of April 13, 2007, between the Company and Terry L. Stevens (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2008)
10.10	Amended and Restated Executive Supplemental Employment Agreement, dated as of April 13, 2007, between the Company and Jeffrey D. Miller (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2008)
10.11	Highwoods Properties, Inc. Amended and Restated Employee Stock Purchase Plan (filed as part of the Company's Current Report on Form 8-K dated May 12, 2010)
10.12	Amendment No. 1 to the Amended and Restated Employee Stock Purchase Plan of the Company
10.13	Credit Agreement, dated as of February 2, 2011, by and among the Company, the Operating Partnership and the Subsidiaries named therein and the Lenders named therein

Exhibit Number	Description
12.1	Statement re: Computation of Ratios of the Company
12.2	Statement re: Computation of Ratios of the Operating Partnership
21	Schedule of Subsidiaries (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2009)
23.1	Consent of Deloitte & Touche LLP for the Company
23.2	Consent of Deloitte & Touche LLP for the Operating Partnership
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.3	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
31.4	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
32.1	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.2	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.3	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
32.4	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
101	The following financial information from the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2010 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

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All other schedules are omitted because they are not applicable or because the required information is included in our Consolidated Financial Statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Highwoods Properties, Inc.
Raleigh, North Carolina

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Highwoods Properties, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 9, 2011

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31,	
	2010	2009
Assets:		
Real estate assets, at cost:		
Land	\$ 347,876	\$ 350,537
Buildings and tenant improvements	2,895,779	2,880,632
Development in process	4,524	—
Land held for development	108,670	104,148
	<u>3,356,849</u>	<u>3,335,317</u>
Less-accumulated depreciation	(835,165)	(781,073)
Net real estate assets	<u>2,521,684</u>	<u>2,554,244</u>
For-sale residential condominiums	8,225	12,933
Real estate and other assets, net, held for sale	1,249	5,031
Cash and cash equivalents	14,206	23,699
Restricted cash	4,399	6,841
Accounts receivable, net of allowance of \$3,595 and \$2,810, respectively	20,716	21,069
Mortgages and notes receivable, net of allowance of \$868 and \$698, respectively	19,044	3,143
Accrued straight-line rents receivable, net of allowance of \$2,209 and \$2,443, respectively	93,435	82,600
Investment in unconsolidated affiliates	63,607	66,077
Deferred financing and leasing costs, net of accumulated amortization of \$59,383 and \$52,129, respectively	85,059	73,517
Prepaid expenses and other assets	40,211	37,947
Total Assets	<u>\$ 2,871,835</u>	<u>\$ 2,887,101</u>
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$ 1,522,945	\$ 1,469,155
Accounts payable, accrued expenses and other liabilities	106,716	117,328
Financing obligations	33,114	37,706
Total Liabilities	<u>1,662,775</u>	<u>1,624,189</u>
Commitments and Contingencies		
Noncontrolling interests in the Operating Partnership	120,838	129,769
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share),		
29,092 shares issued and outstanding	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share),		
2,100,000 shares issued and outstanding	52,500	52,500
Common Stock, \$.01 par value, 200,000,000 authorized shares;		
71,690,487 and 71,285,303 shares issued and outstanding	717	713
Additional paid-in capital	1,766,886	1,751,398
Distributions in excess of net income available for common stockholders	(761,785)	(701,932)
Accumulated other comprehensive loss	(3,648)	(3,811)
Total Stockholders' Equity	<u>1,083,762</u>	<u>1,127,960</u>
Noncontrolling interests in consolidated affiliates	4,460	5,183
Total Equity	<u>1,088,222</u>	<u>1,133,143</u>
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	<u>\$ 2,871,835</u>	<u>\$ 2,887,101</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(in thousands, except per share amounts)

	Years Ended December 31,		
	2010	2009	2008
Rental and other revenues	\$ 463,321	\$ 450,154	\$ 445,268
Operating expenses:			
Rental property and other expenses	164,388	162,812	159,984
Depreciation and amortization	135,793	130,028	122,835
Impairment of assets held for use	—	2,554	3,407
General and administrative	32,948	36,682	38,043
Total operating expenses	333,129	332,076	324,269
Interest expense:			
Contractual	87,726	81,982	92,858
Amortization of deferred financing costs	3,385	2,760	2,716
Financing obligations	2,261	2,063	2,918
	93,372	86,805	98,492
Other income:			
Interest and other income	6,362	8,262	3,825
Gain/(loss) on debt extinguishment	(705)	1,287	—
	5,657	9,549	3,825
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	42,477	40,822	26,332
Gains on disposition of property	74	266	781
Gains on disposition of for-sale residential condominiums	276	922	5,617
Gains on disposition of investment in unconsolidated affiliates	25,330	—	—
Equity in earnings of unconsolidated affiliates	3,821	5,421	5,878
Income from continuing operations	71,978	47,431	38,608
Discontinued operations:			
Income/(loss) from discontinued operations	411	(7,203)	(21,483)
Net gains/(losses) on disposition of discontinued operations	(86)	21,466	18,485
	325	14,263	(2,998)
Net income	72,303	61,694	35,610
Net (income) attributable to noncontrolling interests in the Operating Partnership	(3,320)	(3,197)	(1,577)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(485)	(11)	(2,041)
Dividends on Preferred Stock	(6,708)	(6,708)	(9,804)
Excess of Preferred Stock redemption/repurchase cost over carrying value	—	—	(108)
Net income available for common stockholders	\$ 61,790	\$ 51,778	\$ 22,080
Earnings per common share – basic:			
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42
Income/(loss) from discontinued operations available for common stockholders	—	0.20	(0.05)
Net income available for common stockholders	\$ 0.86	\$ 0.76	\$ 0.37
Weighted average Common Shares outstanding – basic	71,578	67,971	59,320
Earnings per common share – diluted:			
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42
Income/(loss) from discontinued operations available for common stockholders	—	0.20	(0.05)
Net income available for common stockholders	\$ 0.86	\$ 0.76	\$ 0.37
Weighted average Common Shares outstanding – diluted	75,578	72,079	63,492
Net income available for common stockholders:			
Income from continuing operations available for common stockholders	\$ 61,482	\$ 38,318	\$ 24,889
Income/(loss) from discontinued operations available for common stockholders	308	13,460	(2,809)
Net income available for common stockholders	\$ 61,790	\$ 51,778	\$ 22,080

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity

(in thousands, except share amounts)

For the Years Ended December 31, 2010, 2009 and 2008

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Series B Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non- Controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2007	57,167,193	\$ 572	\$ 82,937	\$ 52,500	\$ 1,392,154	\$ (938)	\$ 6,803	\$ (561,093)	\$ 972,935
Issuances of Common Stock, net	6,171,621	62	—	—	209,922	—	—	—	209,984
Conversions of Common Units to Common Stock	66,814	1	—	—	2,021	—	—	—	2,022
Dividends on Common Stock	—	—	—	—	—	—	—	(100,268)	(100,268)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(9,804)	(9,804)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	—	3,826	—	—	—	3,826
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	625	—	625
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(3,293)	—	(3,293)
Issuances of restricted stock, net	166,077	—	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(53,845)	—	1,454	—	—	(108)	(52,499)
Share-based compensation expense	—	1	—	—	6,716	—	—	—	6,717
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(1,577)	(1,577)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	2,041	(2,041)	—
Comprehensive income:									
Net income	—	—	—	—	—	—	—	35,610	35,610
Other comprehensive loss	—	—	—	—	—	(3,854)	—	—	(3,854)
Total comprehensive income									31,756
Balance at December 31, 2008	63,571,705	636	29,092	52,500	1,616,093	(4,792)	6,176	(639,281)	1,060,424
Issuances of Common Stock, net	7,296,816	73	—	—	150,868	—	—	—	150,941
Conversions of Common Units to Common Stock	176,042	2	—	—	5,589	—	—	—	5,591
Dividends on Common Stock	—	—	—	—	—	—	—	(114,429)	(114,429)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(6,708)	(6,708)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	—	(27,717)	—	—	—	(27,717)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(1,004)	—	(1,004)
Issuances of restricted stock, net	240,740	—	—	—	—	—	—	—	—
Share-based compensation expense	—	2	—	—	6,565	—	—	—	6,567
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(3,197)	(3,197)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	11	(11)	—
Comprehensive income:									
Net income	—	—	—	—	—	—	—	61,694	61,694
Other comprehensive income	—	—	—	—	—	981	—	—	981
Total comprehensive income									62,675
Balance at December 31, 2009	71,285,303	713	29,092	52,500	1,751,398	(3,811)	5,183	(701,932)	1,133,143

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity – Continued

(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Series B Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non- Controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2009	71,285,303	713	29,092	52,500	1,751,398	(3,811)	5,183	(701,932)	1,133,143
Issuances of Common Stock, net	143,907	1	—	—	2,997	—	—	—	2,998
Conversions of Common Units to Common Stock	97,134	1	—	—	3,060	—	—	—	3,061
Dividends on Common Stock	—	—	—	—	—	—	—	(121,643)	(121,643)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(6,708)	(6,708)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	—	2,721	—	—	—	2,721
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(568)	—	(568)
Acquisition of noncontrolling interest in consolidated affiliate	—	—	—	—	140	—	(640)	—	(500)
Issuances of restricted stock, net	164,143	—	—	—	—	—	—	—	—
Share-based compensation expense	—	2	—	—	6,570	—	—	—	6,572
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(3,320)	(3,320)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	485	(485)	—
Comprehensive income:									
Net income	—	—	—	—	—	—	—	72,303	72,303
Other comprehensive income	—	—	—	—	—	163	—	—	163
Total comprehensive income									72,466
Balance at December 31, 2010	<u>71,690,487</u>	<u>\$ 717</u>	<u>\$ 29,092</u>	<u>\$ 52,500</u>	<u>\$ 1,766,886</u>	<u>\$ (3,648)</u>	<u>\$ 4,460</u>	<u>\$ (761,785)</u>	<u>\$1,088,222</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2010	2009	2008
Operating activities:			
Net income	\$ 72,303	\$ 61,694	\$ 35,610
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	136,158	131,883	127,620
Amortization of lease incentives	1,239	1,110	1,041
Share-based compensation expense	6,572	6,567	6,717
Additions to allowance for doubtful accounts	4,009	5,639	3,391
Amortization of deferred financing costs	3,385	2,760	2,716
Amortization of settled cash flow hedges	237	(249)	181
Impairment of assets held for use	—	13,518	32,846
(Gain)/loss on debt extinguishment	705	(1,287)	—
Net (gains)/losses on disposition of property	12	(21,732)	(19,266)
Gains on disposition of for-sale residential condominiums	(276)	(922)	(5,617)
Gains on disposition of investment in unconsolidated affiliates	(25,330)	—	—
Equity in earnings of unconsolidated affiliates	(3,821)	(5,421)	(5,878)
Changes in financing obligations	708	392	80
Distributions of earnings from unconsolidated affiliates	4,433	4,180	5,994
Changes in operating assets and liabilities:			
Accounts receivable	(3,290)	(2,819)	(3,362)
Prepaid expenses and other assets	370	(2,629)	(352)
Accrued straight-line rents receivable	(11,889)	(6,521)	(7,868)
Accounts payable, accrued expenses and other liabilities	5,012	2,957	(16,031)
Net cash provided by operating activities	190,537	189,120	157,822
Investing activities:			
Additions to real estate assets and deferred leasing costs	(102,717)	(151,482)	(231,422)
Net proceeds from disposition of real estate assets	6,801	77,288	64,858
Net proceeds from disposition of for-sale residential condominiums	4,952	12,196	27,140
Proceeds from disposition of investment in unconsolidated affiliates	15,000	—	—
Distributions of capital from unconsolidated affiliates	1,933	3,955	3,214
Repayments of mortgages and notes receivable	329	459	1,624
Contributions to unconsolidated affiliates	(2,875)	(952)	(12,741)
Changes in restricted cash and other investing activities	(1,578)	(3,288)	12,984
Net cash used in investing activities	(78,155)	(61,824)	(134,343)
Financing activities:			
Dividends on Common Stock	(121,643)	(114,429)	(100,268)
Redemptions/repurchases of Preferred Stock	—	—	(52,499)
Dividends on Preferred Stock	(6,708)	(6,708)	(9,804)
Distributions to noncontrolling interests in the Operating Partnership	(6,469)	(6,832)	(6,678)
Distributions to noncontrolling interests in consolidated affiliates	(568)	(1,004)	(3,293)
Acquisition of noncontrolling interest in consolidated affiliate	(500)	—	—
Net proceeds from the issuance of Common Stock	2,998	150,941	209,984
Repurchase of Common Units from noncontrolling interests	—	—	(3,293)
Borrowings on revolving credit facility	37,500	128,000	462,183
Repayments of revolving credit facility	(7,500)	(291,000)	(526,983)
Borrowings on mortgages and notes payable	10,368	217,215	192,300
Repayments of mortgages and notes payable	(27,004)	(188,501)	(173,259)
Borrowings on financing obligations	—	4,184	—
Payments on financing obligations	(1,116)	(1,044)	(977)
Payments on debt extinguishment	(577)	—	—
Contributions from noncontrolling interests in consolidated affiliates	—	—	625
Additions to deferred financing costs	(656)	(8,176)	(900)
Net cash used in financing activities	(121,875)	(117,354)	(12,862)
Net increase/(decrease) in cash and cash equivalents	(9,493)	9,942	10,617
Cash and cash equivalents at beginning of the period	23,699	13,757	3,140
Cash and cash equivalents at end of the period	\$ 14,206	\$ 23,699	\$ 13,757

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.**Consolidated Statements of Cash Flows – Continued**

(in thousands)

Supplemental disclosure of cash flow information:

	Years Ended December 31,		
	2010	2009	2008
Cash paid for interest, net of amounts capitalized	\$ 86,395	\$ 85,422	\$ 97,518

Supplemental disclosure of non-cash investing and financing activities:

	Years Ended December 31,		
	2010	2009	2008
Unrealized gains/(losses) on cash flow hedges	\$ —	\$ 937	\$ (1,376)
Conversion of Common Units to Common Stock	\$ 3,061	\$ 5,591	\$ 2,022
Changes in accrued capital expenditures	\$ (1,946)	\$ (19,098)	\$ (7,833)
Write-off of fully depreciated real estate assets	\$ 43,955	\$ 33,006	\$ 34,633
Write-off of fully amortized deferred financing and leasing costs	\$ 15,719	\$ 19,194	\$ 14,705
Unrealized gains/(losses) on marketable securities of non-qualified deferred compensation plan	\$ 382	\$ 1,497	\$ (2,177)
Settlement of financing obligation	\$ 4,184	\$ —	\$ —
Adjustment to noncontrolling interests in the Operating Partnership to fair value	\$ (2,721)	\$ 27,717	\$ (3,826)
Unrealized gain/(loss) on tax increment financing bond	\$ (177)	\$ 293	\$ (2,659)
Mortgages receivable from seller financing	\$ 17,030	\$ —	\$ —
Assumption of mortgages and notes payable	\$ 40,306	\$ —	\$ 8,348
Issuance of Common Units to acquire real estate assets	\$ —	\$ —	\$ 6,325

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the “Company”), is a fully-integrated, self-administered and self-managed equity real estate investment trust (“REIT”) that operates in the Southeastern and Midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”).

The Company is the sole general partner of the Operating Partnership. At December 31, 2010, the Company owned all of the Preferred Units and 71.3 million, or 95.0%, of the Common Units in the Operating Partnership. Limited partners, including one officer and two directors of the Company, own the remaining 3.8 million Common Units. In the event the Company issues shares of Common Stock, the proceeds of the issuance are contributed to the Operating Partnership in exchange for additional Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company’s Common Stock, \$.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During 2010, the Company redeemed 97,134 Common Units for a like number of shares of Common Stock. The redemptions increased the percentage of Common Units owned by the Company from 94.8% at December 31, 2009 to 95.0% at December 31, 2010.

At December 31, 2010, the Company and/or the Operating Partnership wholly owned: 295 in-service office, industrial and retail properties, comprising 27.2 million square feet; 96 rental residential units; 26 for-sale residential condominiums; 611 acres of undeveloped land suitable for future development, of which 523 acres are considered core holdings; and an additional two office properties that are considered completed but not yet stabilized. In addition, we owned interests (50.0% or less) in 35 in-service office and industrial properties, one office property under development and 11 acres of undeveloped land suitable for future development, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company’s Consolidated Financial Statements, but not included in the Operating Partnership’s Consolidated Financial Statements.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Our Consolidated Statements of Income for the years ended December 31, 2009 and 2008 were revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale which required discontinued operations presentation. Prior period amounts related to additions to allowance for doubtful accounts and amortization of lease commissions in our Consolidated Statements of Cash Flows have been reclassified to conform to the current period presentation.

The Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. We consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership or in our capacity as general partner or managing member. Five of the 50.0% or less owned in-service office properties are consolidated. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At December 31, 2010, we had involvement with no entities that we deemed to be variable interest entities. All significant intercompany transactions and accounts have been eliminated.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years. Depreciation expense for real estate assets was \$117.6 million, \$115.6 million and \$111.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Expenditures directly related to the development and construction of real estate assets are included in net real estate assets and are stated at depreciated cost. Development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs on qualifying assets, real estate taxes, development personnel salaries and related costs and other costs incurred during the period of development. Interest and other carrying costs are capitalized until the building is ready for its intended use, but not later than one year from cessation of major construction activity. We consider a construction project as substantially completed and ready for its intended use upon the completion of tenant improvements. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction.

Expenditures directly related to the leasing of properties are included in deferred financing and leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties for new leases or lease renewals are capitalized. Internal leasing costs include primarily compensation, benefits and other costs, such as legal fees related to leasing activities, which are incurred in connection with successfully securing leases of properties. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases, which generally are from three to 10 years. Estimated costs related to unsuccessful activities are expensed as incurred.

We record liabilities for the performance of asset retirement activities when the obligation to perform such activities is unconditional, whether or not the timing or method of settlement of the obligation may be conditional on a future event.

Upon the acquisition of real estate assets, we assess the fair value of acquired tangible assets such as land, buildings and tenant improvements, intangible assets such as above and below market leases, acquired in-place leases, customer relationships and other identified intangible assets and assumed liabilities. We assess fair value based on estimated cash flow projections that utilize discount and/or capitalization rates as well as available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

The above and below market rate portions of leases acquired in connection with property acquisitions are recorded in deferred financing and leasing costs or in accounts payable, accrued expenses and other liabilities at their fair value. Fair value is calculated as the present value of the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) our estimate of fair market lease rates for each corresponding in-place lease, using a discount rate that reflects the risks associated with the leases acquired and measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases and the accrued below-market lease values are amortized as an increase to base rental revenue over the remaining term of the respective leases and any below market option periods.

In-place leases acquired are recorded at their fair value in deferred financing and leasing costs and are amortized to depreciation and amortization expense over the remaining term of the respective lease. The value of in-place leases is based on our evaluation of the specific characteristics of each customer's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions, the customer's credit quality and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider tenant improvements, leasing commissions and legal and other related expenses.

Real estate and other assets are classified as long-lived assets held for use and as long-lived assets held for sale. Real estate is classified as held for sale when the Company's Board of Directors, or its investment committee has approved the sale of the asset, a legally enforceable contract has been executed and the buyer's due diligence period has expired.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances (such as a significant decline in occupancy, identification of materially adverse legal or environmental factors, change in our designation of an asset to non-core which impacts the anticipated holding period or market value less than cost) indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis is generally performed at the property level, except when an asset is part of an interdependent group (e.g. office park) and consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated 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, costs to operate each property and expected ownership periods. For properties under development, the cash flows are based on expected service potential of the asset (group) when development is substantially complete. If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

We record assets held for sale (including for-sale residential condominiums) at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer, less costs to sell. The impairment loss, if any, is the amount by which the carrying amount exceeds the estimated fair value.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

We analyze our investments in unconsolidated affiliates for impairment. Such analysis consists of determining whether an expected loss in market value of an investment is other than temporary by evaluating the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investee, and our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value. As the factors used in this analysis are difficult to predict and are subject to future events that may alter our assumptions, we may be required to recognize future impairment losses on our investments in unconsolidated affiliates.

Sales of Real Estate

For sales transactions meeting the requirements for full profit recognition, the related assets and liabilities are removed from the balance sheet and the resultant gain or loss is recorded in the period the transaction closes. For sales transactions with continuing involvement after the sale, if the continuing involvement with the property is limited by the terms of the sales contract, profit is recognized at the time of sale and is reduced by the maximum exposure to loss related to the nature of the continuing involvement. Sales to entities in which we have or receive an interest are accounted for using partial sale accounting.

For transactions that do not meet the criteria for a sale, we evaluate the nature of the continuing involvement, including put and call provisions, if present, and account for the transaction as a financing arrangement, profit-sharing arrangement, leasing arrangement or other alternate method of accounting, rather than as a sale, based on the nature and extent of the continuing involvement. Some transactions may have numerous forms of continuing involvement. In those cases, we determine which method is most appropriate based on the substance of the transaction.

If we have an obligation to repurchase the property at a higher price or at a future indeterminable value (such as fair market value), or we guarantee the return of the buyer's investment or a return on that investment for an extended period, we account for such transaction as a financing arrangement. For transactions treated as financing arrangements, we record the amounts received from the buyer as a financing obligation and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are reflected as interest expense on the financing obligation. If the transaction includes an obligation or option to repurchase the asset at a higher price, additional interest is recorded to accrete the liability to the repurchase price. For options or obligations to repurchase the asset at fair market value at the end of each reporting period, the balance of the liability is adjusted to equal the then current fair value to the extent fair value exceeds the original financing obligation. The corresponding debit or credit is recorded to a related discount account and the revised discount is amortized over the expected term until termination of the option or obligation. If it is unlikely such option will be exercised, the transaction is accounted for under the deposit method or profit-sharing method. If we have an obligation or option to repurchase at a lower price, the transaction is accounted for as a leasing arrangement. At such time as a repurchase obligation expires, a sale is recorded and gain recognized.

If we retain an interest in the buyer and provide certain rent guarantees or other forms of support where the maximum exposure to loss exceeds the gain, we account for such transaction as a profit-sharing arrangement. For transactions treated as profit-sharing arrangements, we record a profit-sharing obligation for the amount of equity contributed by the other partner and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are allocated to the other partner for its percentage interest and reflected as "co-venture expense" in our Consolidated Financial Statements. In future periods, a sale is recorded and profit is recognized when the remaining maximum exposure to loss is reduced below the amount of gain deferred.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Rental and Other Revenues

Minimum contractual rents from leases are 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. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue, such as percentage rent, is accrued when the contingency is removed. Termination fee income is recognized as revenue at the later of when the customer has vacated the space or the lease has expired and the following conditions are met: a fully executed lease termination agreement has been delivered; the amount of the fee is determinable; and collectability of the fee is reasonably assured. Rental revenue reductions related to co-tenancy lease provisions, if any, are accrued when events have occurred that trigger such provisions.

Property operating cost recoveries from customers are determined on a calendar year and lease-by-lease basis. The most common types of cost reimbursements in our leases are common area maintenance (“CAM”) and real estate taxes, for which the customer pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of a base year. The computation of property operating cost recovery income from customers is complex and involves numerous judgments, including the interpretation of terms and other customer lease provisions. Leases are not uniform in dealing with such cost reimbursements and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected with respect to the cost reimbursements. After the end of the calendar year, we compute each customer’s final cost reimbursements and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Allowance for Doubtful Accounts

Accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and adjust the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of receivables prove incorrect, we could experience losses in excess of our allowance for doubtful accounts. The allowance and its related receivable are written-off when we have concluded there is a low probability of collection.

Discontinued Operations

Properties that are sold or classified as held for sale are classified as discontinued operations provided that (1) the operations and cash flows of the property will be eliminated from our ongoing operations and (2) we will not have any significant continuing involvement in the operations of the property after it is sold. Interest expense is included in discontinued operations if the related loan securing the sold property is to be paid off or assumed by the buyer in connection with the sale. If the property is sold to a joint venture in which we retain an interest, the property will not be accounted for as a discontinued operation due to our significant ongoing interest in the operations through our joint venture interest. If we are retained to provide property management, leasing and/or other services for the property owner after the sale, the property generally will be accounted for as a discontinued operation because the expected cash flows related to our management and leasing activities generally will not be significant in comparison to the cash flows from the property prior to sale.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Lease Incentives

Lease incentive costs, which are payments made to or on behalf of a customer as an incentive to sign the lease, are capitalized in deferred financing and leasing costs and amortized on a straight-line basis over the respective lease terms as a reduction of rental revenues.

For-Sale Residential Condominiums

For-sale residential condominiums include completed, but unsold, condominium inventory. We initially record receipts of earnest money deposits in accounts payable, accrued expenses and other liabilities in accordance with the deposit method. We then record completed sales when units close and the remaining net cash is received. During the years ended December 31, 2010, 2009 and 2008, we received \$5.3 million, \$13.0 million and \$28.6 million, respectively, in gross proceeds and recorded \$5.0 million, \$12.1 million and \$23.0 million, respectively, of cost of assets sold from condominium sales.

Investments in Unconsolidated Affiliates

We account for our investments in less than majority owned joint ventures, partnerships and limited liability companies using the equity method of accounting when our interests represent a general partnership interest but substantive participating rights or substantive kick out rights have been granted to the limited partners or when our interests do not represent a general partnership interest and we do not control the major operating and financial policies of the entity. These investments are initially recorded at cost, as investments in unconsolidated affiliates, and are subsequently adjusted for our share of earnings and cash contributions and distributions. To the extent our cost basis at formation of the joint venture is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related assets and included in our share of equity in earnings of unconsolidated affiliates.

Additionally, our joint ventures will frequently borrow funds on their own behalf to finance the acquisition of, and/or leverage the return upon, the properties being acquired by the joint ventures or to build or acquire additional buildings. Such borrowings are typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment. In most cases, we and/or our joint venture partners are required to agree to customary limited exceptions on non-recourse loans.

Cash Equivalents

We consider highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash represents cash deposits that are legally restricted or held by third parties on our behalf. It includes security deposits from sales contracts on for-sale residential condominiums, construction-related escrows, property disposition proceeds set aside and designated or intended to fund future tax-deferred exchanges of qualifying real estate investments, escrows and reserves for debt service, real estate taxes and property insurance established pursuant to certain mortgage financing arrangements, and deposits given to lenders to unencumber secured properties, if any.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

We have elected and expect to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, we are required to pay dividends to our stockholders equal to at least 90.0% of our annual REIT taxable income, excluding net capital gains.

We conduct certain business activities through a taxable REIT subsidiary, as permitted under the Code. The taxable REIT subsidiary is subject to federal and state income taxes on its taxable income. We record provisions for income taxes based on its income recognized for financial statement purposes, including the effects of temporary differences between such income and the amount recognized for tax purposes.

Concentration of Credit Risk

We perform ongoing credit evaluations of our customers. At December 31, 2010, the wholly owned properties, defined as in-service properties (excluding rental residential units) to which we have title and 100.0% ownership rights (“Wholly Owned Properties”), were leased to 1,614 customers in nine primary geographic locations. The geographic locations that comprise greater than 10.0% of our annualized cash rental revenue are Raleigh, NC, Tampa, FL, Atlanta, GA, Nashville, TN and Kansas City, MO. Our customers engage in a wide variety of businesses. No single customer of the Wholly Owned Properties generated more than 10.0% of our consolidated revenues during 2010.

We maintain our cash and cash equivalents and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution may exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Additionally, from time to time in connection with tax-deferred 1031 transactions, our restricted cash balances may be commingled with other funds being held by any such intermediary institution which subjects our balance to the credit risk of the institution.

Derivative Financial Instruments

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear 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 although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock and similar agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Our objective in using interest rate hedge contracts is to add stability to interest expense and manage our exposure to interest rate fluctuations. To accomplish this objective, we sometimes use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into interest expense in the period that the hedged forecasted transaction affects earnings. We do not hold these derivative contracts for trading or speculative purposes and generally do not have any derivatives that are not designated as hedges. Interest rate hedge contracts typically contain a provision whereby if we default on any of our indebtedness, we could also be declared in default on our hedge contracts.

We are exposed to certain losses in the event of nonperformance by the counterparty under any outstanding hedge contracts. We expect the counterparty, which generally is a major financial institution, to perform fully under any such contracts. However, if any counterparty were to default on its obligation under an interest rate hedge contract, we could be required to pay the full rates on our debt, even if such rates were in excess of the rate in the contract.

We account for terminated derivative instruments by recognizing the related accumulated comprehensive income/loss balance in current earnings, unless the hedged forecasted transaction continues as originally planned, in which case we continue to amortize the accumulated comprehensive income/loss into earnings over the originally designated hedge period.

Earnings Per Share

Basic earnings per share is computed by dividing net income available for common stockholders by the weighted Common Shares outstanding - basic. Diluted earnings per share is computed by dividing net income available to common stockholders plus noncontrolling interests in the Operating Partnership by the weighted Common Shares outstanding – basic plus the dilutive effect of options, warrants and convertible securities outstanding, including Common Units, using the treasury stock method. Weighted Common Shares outstanding – basic includes all unvested restricted stock since dividends received on such restricted stock are non-forfeitable.

2. REAL ESTATE ASSETS

Acquisitions

In the third quarter of 2010, we acquired a 336,000 square foot office property in Memphis, TN for \$10.0 million in cash and the assumption of \$42.6 million of 6.43% effective rate secured debt, which was recorded at fair value of \$40.3 million and incurred \$0.4 million of acquisition-related costs. In the fourth quarter of 2010, we acquired a 117,000 square foot office property and 32.6 acres of development land in Tampa, FL for \$12.0 million in cash and incurred \$0.2 million of acquisition-related costs. At the time of acquisition, the office building was vacant. Also, we acquired our partner's interest in a joint venture that owned for-sale residential condominiums for \$0.5 million in cash.

In 2009, we acquired a 220,000 square foot office building in Tampa, FL for \$22.3 million in cash and incurred \$0.1 million of acquisition-related costs.

In 2008, we acquired a 135,000 square foot office building in Memphis, TN in exchange for 183,587 Common Units and the assumption of \$7.8 million of 8.15% effective rate secured debt, which were recorded at fair value of \$6.3 million and \$8.4 million, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

2. REAL ESTATE ASSETS - Continued

Dispositions

During the second quarter of 2010, we sold seven office properties in Winston Salem, NC for gross proceeds of \$12.9 million. In connection with this disposition, we received cash of \$4.5 million and provided seller financing of \$8.4 million (recorded at fair value of \$8.4 million in mortgages and notes receivable) and committed to lend up to an additional \$1.7 million for tenant improvements and lease commissions, of which \$0.2 million was funded as of December 31, 2010. The three-year, interest-only first mortgage carries a 6.0% average interest rate. Assuming no default exists, the note can be extended by the buyer for two additional one-year periods, subject to an increase in the interest rate to 7.0% in the fourth year and to 8.0% in the fifth year. We have accounted for this disposition using the installment method, whereby the \$0.4 million gain on disposition of property has been deferred and will be recognized when the seller financing is repaid.

During the second quarter of 2010, we also sold six industrial properties in Greensboro, NC for gross proceeds of \$12.0 million. In connection with this disposition, we received cash of \$3.4 million and provided seller financing of \$8.6 million (recorded at fair value of \$8.6 million in mortgages and notes receivable) and a limited rent guarantee with maximum exposure to loss of \$0.7 million as of December 31, 2010. The three-year, interest-only first mortgage carries a 6.25% average interest rate. Assuming no default exists, the note can be extended by the buyer for two additional one-year periods, subject to an increase in the interest rate to 7.0% in the fourth year and to 7.75% in the fifth year. We currently have concluded that a loss from the rent guarantee is not probable. We have accounted for this disposition using the installment method, whereby the \$0.3 million impairment was recognized in net gains/(losses) on disposition of discontinued operations in the second quarter of 2010.

During the first quarter of 2010, we recorded a completed sale in connection with the disposition of an office property in Raleigh, NC in the fourth quarter of 2009 where the buyer's limited right to compel us to repurchase the property expired. Accordingly, we recognized the \$0.2 million gain on disposition of property in the first quarter of 2010.

In 2009, we sold 517,000 square feet of non-core retail and office properties for gross proceeds of \$78.2 million and recorded gains of \$21.7 million.

In 2008, we sold 744,000 square feet of office and industrial properties for gross proceeds of approximately \$56.8 million and recorded net gains of \$17.9 million. We also sold 38 acres of non-core land for gross sale proceeds of \$9.2 million and recorded a net gain of \$0.3 million.

Impairments

We recorded impairment of assets held for use of \$2.6 million and \$3.4 million in 2009 and 2008, respectively, on four office properties located in Winston-Salem, NC. Additionally, we recorded impairment of \$11.0 million and \$29.4 million in 2009 and 2008, respectively, on certain office, industrial and retail properties in Winston-Salem and Greensboro, NC that were sold in 2010 and required discontinued operations presentation. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future (see Note 1).

Development

As of December 31, 2010, we had one office property aggregating 60,000 square feet which was reflected as development in process due to ongoing redevelopment activities. The project is 100.0% leased.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per share data)

3. MORTGAGES AND NOTES RECEIVABLE

The following table sets forth our mortgages and notes receivable:

	December 31,	
	2010	2009
Seller financing (first mortgages)	\$ 17,180	\$ —
Less allowance	—	—
	<u>17,180</u>	<u>—</u>
Promissory notes	2,732	3,841
Less allowance	(868)	(698)
	<u>1,864</u>	<u>3,143</u>
Mortgages and notes receivable, net	<u>\$ 19,044</u>	<u>\$ 3,143</u>

The following table sets forth our notes receivable allowance, which relates only to promissory notes:

	December 31,	
	2010	2009
Beginning notes receivable allowance	\$ 698	\$ 459
Bad debt expense	413	255
Recoveries/write-offs/other	(243)	(16)
Total notes receivable allowance	<u>\$ 868</u>	<u>\$ 698</u>

Our mortgages and notes receivable consists primarily of seller financing issued in conjunction with two disposition transactions in 2010 (see Note 2). This seller financing is evidenced by first mortgages secured by the assignment of rents and the underlying real estate assets. We conclude on the credit quality of the receivables by monitoring the leasing statistics and market fundamentals of these assets. As of December 31, 2010, the interest payments on both mortgages receivable were current and there were no indications of impairment on the receivables. We may be required to take impairment charges in the future if and to the extent the underlying collateral diminishes in value.

4. INVESTMENTS IN AFFILIATES**Unconsolidated Affiliates**

We have retained equity interests ranging from 10.0% to 50.0% in various joint ventures with unrelated investors. We account for these unconsolidated affiliates using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Financial Statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

4. INVESTMENTS IN AFFILIATES— Continued

The following table sets forth our ownership in unconsolidated affiliates at December 31, 2010:

Joint Venture	Location of Properties	Ownership Interest
Concourse Center Associates, LLC	Greensboro, NC	50.00%
Plaza Colonnade, LLC	Kansas City, MO	50.00%
Board of Trade Investment Company	Kansas City, MO	49.00%
Highwoods DLF 97/26 DLF 99/32, LP	Atlanta, GA; Greensboro, NC; Orlando, FL	42.93%
Highwoods KC Glenridge Office, LLC	Atlanta, GA	40.00%
Highwoods KC Glenridge Land, LLC	Atlanta, GA	40.00%
HIW-KC Orlando, LLC	Orlando, FL	40.00%
Kessinger/Hunter, LLC	Kansas City, MO	26.50%
Highwoods DLF Forum, LLC	Raleigh, NC	25.00%
Highwoods DLF 98/29, LLC	Atlanta, GA; Charlotte, NC; Greensboro, NC; Raleigh, NC; Orlando, FL	22.81%
4600 Madison Associates, LLC	Kansas City, MO	12.50%
HIW Development B, LLC	Charlotte, NC	10.00%

The following table sets forth combined summarized financial information for our unconsolidated affiliates:

	December 31,	
	2010	2009
Balance Sheets:		
Assets:		
Real estate assets, net	\$ 580,257	\$ 683,257
All other assets, net	92,423	118,513
Total Assets	<u>\$ 672,680</u>	<u>\$ 801,770</u>
Liabilities and Partners' or Shareholders' Equity:		
Mortgages and notes payable (1)	\$ 424,818	\$ 594,084
All other liabilities	26,267	32,855
Partners' or shareholders' equity	221,595	174,831
Total Liabilities and Partners' or Shareholders' Equity	<u>\$ 672,680</u>	<u>\$ 801,770</u>
Our share of historical partners' or shareholders' equity (2)	\$ 61,022	\$ 34,631
Net excess of cost of investments over the net book value of underlying net assets (2) (3)	2,585	19,038
Carrying value of investments in unconsolidated affiliates (2)	<u>\$ 63,607</u>	<u>\$ 53,669</u>
Our share of unconsolidated non-recourse mortgage debt (1)	<u>\$ 150,698</u>	<u>\$ 238,555</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

4. INVESTMENTS IN AFFILIATES— Continued

- (1) Our share of scheduled future principal payments, including amortization, due on mortgages and notes payable at December 31, 2010 is as follows:

2011	\$ 4,124
2012	22,901
2013	23,830
2014 (a)	64,475
2015	1,139
Thereafter	34,229
	<u>\$ 150,698</u>

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.

- (a) Includes our 22.81% portion of a \$38.7 million mortgage payable which is callable at the lender's sole discretion on either of the following call dates: May 1, 2014, 2019 or 2024, by giving written notice at least six months prior to the elected call date.
- (2) During the third quarter of 2006, three of our Des Moines joint ventures made cash distributions aggregating \$17.0 million in connection with a debt refinancing. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. We recorded the distributions as a reduction of our investment account and included the resulting negative investment balances of \$12.4 million in accounts payable, accrued expenses and other liabilities at December 31, 2009. Our interests in these joint ventures were sold in the second quarter of 2010.
- (3) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the joint venture level, which is typically depreciated over the life of the related asset.

	Years Ended December 31,		
	2010	2009	2008
Income Statements:			
Rental and other revenues	\$ 119,868	\$ 149,856	\$ 161,593
Expenses:			
Rental property and other expenses	56,868	72,344	79,647
Depreciation and amortization	31,401	35,537	34,702
Interest expense	27,956	35,245	36,117
Total expenses	116,225	143,126	150,466
Income before disposition of properties	3,643	6,730	11,127
Gains on disposition of properties	—	2,963	—
Net income	<u>\$ 3,643</u>	<u>\$ 9,693</u>	<u>\$ 11,127</u>
Our share of:			
Depreciation and amortization of real estate assets	\$ 10,471	\$ 12,839	\$ 12,751
Interest expense	\$ 10,545	\$ 14,074	\$ 14,587
Net gain on disposition of depreciable properties	\$ —	\$ 582	\$ —
Net income	<u>\$ 1,466</u>	<u>\$ 2,889</u>	<u>\$ 3,732</u>
Our share of net income	\$ 1,466	\$ 2,889	\$ 3,732
Purchase accounting and management, leasing and other fees adjustments	2,355	2,532	2,146
Equity in earnings of unconsolidated affiliates	<u>\$ 3,821</u>	<u>\$ 5,421</u>	<u>\$ 5,878</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

4. INVESTMENTS IN AFFILIATES— Continued

The following summarizes additional information related to certain of our unconsolidated affiliates:

- Highwoods DLF 97/26 DLF 99/32, L.P. (“DLF II”)

In 2009, DLF II sold one property for gross proceeds of \$7.1 million and recorded an impairment charge of \$0.5 million. We recorded \$0.2 million as our proportionate share of this impairment charge through equity in earnings of unconsolidated affiliates in 2009.

- Kessinger/Hunter, LLC

Kessinger/Hunter, LLC, which is managed by our joint venture partner, previously provided property management, leasing, brokerage and certain construction related services to certain of our Wholly Owned Properties in Kansas City, MO. These services were reduced by us to only leasing-related services in 2009. Kessinger/Hunter, LLC received \$0.8 million, \$0.5 million and \$2.6 million from us for these services in 2010, 2009 and 2008, respectively.

- Highwoods-DLF Forum, LLC (“DLF Forum”)

In 2008, we contributed \$12.3 million to this joint venture for a 25% ownership interest. The joint venture acquired a 635,000 square foot office park in Raleigh, NC, for approximately \$113 million and obtained a \$67.5 million loan secured by the property.

- Highwoods DLF 98/29, LLC (“DLF I”)

At the formation of this joint venture in 1999, our partner contributed excess cash to the venture that was distributed to us under the joint venture agreements. We are required to repay this excess cash to our partner over time, as discussed in Note 9.

In 2009, DLF I sold a property for gross proceeds of \$14.8 million and recorded a gain of \$3.4 million. We recorded \$0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in 2009.

- HIW Development B, LLC

In 2009, we contributed \$0.3 million to this joint venture for a 10% ownership interest. Simultaneous with the formation, this joint venture acquired land for \$3.4 million to be used for development in Charlotte, NC. In 2010, we contributed an additional \$1.0 million to this joint venture for the purpose of constructing a build-to-suit office property expected to cost \$46.5 million when completed in 2011. We receive customary development fees for this construction.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

4. INVESTMENTS IN AFFILIATES— Continued

- Des Moines, IA Joint Ventures

During the second quarter of 2010, we sold our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA. The assets in the joint ventures included 1.7 million square feet of office, 788,000 square feet of industrial and 45,000 square feet of retail properties, as well as 418 apartment units. In connection with the closing, we received \$15.0 million in cash. We had a negative book basis in certain of the joint ventures, primarily as a result of prior cash distributions to the partners. Accordingly, we recorded gain on disposition of investment in unconsolidated affiliates of \$25.3 million in the second quarter of 2010. As of the closing date, the joint ventures had approximately \$170 million of secured debt, which was non-recourse to us except (1) in the case of customary exceptions pertaining to matters such as misuse of funds, borrower bankruptcy, unpermitted transfers, environmental conditions and material misrepresentations and (2) approximately \$9.0 million of direct and indirect guarantees. We have been released by the applicable lenders from all such direct and indirect guarantees and we have no ongoing lender liability relating to such customary exceptions to non-recourse liability with respect to most, but not all, of the debt. The buyer has agreed to indemnify and hold us harmless from any and all future losses that we suffer as a result of our prior investment in the joint ventures (other than losses directly resulting from our acts or omissions). In the event we are exposed to any such future loss, our financial condition and operating results would not be adversely affected unless the buyer defaults on its indemnification obligation.

- Other Activities

We receive development, management and leasing fees for services provided to certain of our joint ventures. These fees are recognized as income to the extent of our respective joint venture partner's interest in rental and other revenues. In the years ended December 31, 2010, 2009 and 2008, we recognized \$2.7 million, \$2.1 million and \$2.1 million, respectively, of development, management and leasing fees from our unconsolidated joint ventures.

Consolidated Affiliates

The following summarizes our consolidated affiliates:

- Highwoods-Markel Associates, LLC ("Markel")

We have a 50.0% ownership interest in Markel. We are the manager and leasing agent for Markel's properties located in Richmond, VA and receive customary management and leasing fees. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. The organizational documents of Markel require the entity to be liquidated through the sale of its assets upon reaching December 31, 2100. As controlling partner, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the noncontrolling interest partner in these partially owned properties only if the net proceeds received by the entity from the sale of our assets warrant a distribution as determined by the agreement. We estimate the value of noncontrolling interest distributions would have been approximately \$13.9 million had the entity been liquidated at December 31, 2010. This estimated settlement value is based on the fair value of the underlying properties which is 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. If the entity's underlying assets are worth less than the underlying liabilities on the date of such liquidation, we would have no obligation to remit any consideration to the noncontrolling interest holder.

- SF-HIW Harborview Plaza, LP ("Harborview")

We have a 20.0% interest in Harborview. We are the manager and leasing agent for Harborview's property located in Tampa, FL and receive customary management and leasing fees. As further described in Note 8, we account for this joint venture as a financing obligation since our partner has the right to put its interest back to us in the future.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

4. INVESTMENTS IN AFFILIATES— Continued

- Plaza Residential, LLC (“Plaza Residential”)

In 2007, through our taxable REIT subsidiary, we contributed \$10.6 million for a majority owned interest in Plaza Residential, which was formed to develop and sell 139 for-sale residential condominiums constructed above an office property developed by us in Raleigh, NC. Our partner had a 7.0% ownership interest in the joint venture, performed development services for the joint venture for a market development fee and guaranteed 40.0% of the construction financing. As of December 31, 2009, we consolidated this joint venture since we own the majority interest. On December 30, 2010, we acquired our partner’s interest for \$0.5 million.

5. DEFERRED FINANCING AND LEASING COSTS

The following table sets forth total deferred financing and leasing costs, net of accumulated amortization. Lease intangible assets include lease commissions and above market and in-place lease intangible assets arising from purchase accounting.

	December 31,	
	2010	2009
Deferred financing costs	\$ 16,412	\$ 16,811
Less accumulated amortization	(7,054)	(4,549)
	9,358	12,262
Deferred leasing costs (including lease intangible assets and lease incentives)	128,030	108,835
Less accumulated amortization	(52,329)	(47,580)
	75,701	61,255
Deferred financing and leasing costs, net	\$ 85,059	\$ 73,517

Amortization of deferred financing and leasing costs were as follows:

	Years Ended December 31,		
	2010	2009	2008
Amortization of deferred financing costs	\$ 3,385	\$ 2,760	\$ 2,716
Amortization of lease intangible assets (included in depreciation and amortization)	\$ 17,383	\$ 15,064	\$ 15,320
Amortization of lease incentives (included in rental and other revenues)	\$ 1,239	\$ 1,110	\$ 1,041

The following table sets forth scheduled future amortization for deferred financing and leasing costs as of December 31, 2010:

Years Ending December 31,	Amortization of Deferred Financing Costs	Amortization of Lease Intangible Assets	Amortization of Lease Incentives
2011	\$ 3,014	\$ 17,168	\$ 1,038
2012	2,786	14,291	938
2013	1,168	11,233	775
2014	791	8,545	617
2015	791	6,097	408
Thereafter	808	13,201	1,390
	\$ 9,358	\$ 70,535	\$ 5,166

The weighted average remaining amortization periods for deferred financing costs, lease intangible assets and lease incentives were 3.4 years, 6.2 years and 7.9 years, respectively, as of December 31, 2010.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

5. DEFERRED FINANCING AND LEASING COSTS - Continued

In connection with the acquisition of an office property in Memphis, TN in the third quarter of 2010, we recorded \$2.8 million of above market lease intangible assets and \$7.1 million of in-place lease intangible assets with weighted average amortization periods at the time of the acquisition of 7.3 and 5.9 years, respectively.

6. MORTGAGES AND NOTES PAYABLE

Our mortgages and notes payable consist of the following:

	December 31,	
	2010	2009
Secured indebtedness: (1)		
7.05% mortgage loan due 2012	\$ 186,038	\$ 188,088
6.03% mortgage loan due 2013	128,084	130,739
5.68% mortgage loan due 2013	113,230	115,958
5.17% (6.43% effective rate) mortgage loan due 2015 (2)	40,199	—
6.88% mortgage loans due 2016	113,386	114,610
7.50% mortgage loan due 2016	46,662	47,108
5.74% to 9.00% mortgage loans due between 2012 and 2016 (3) (4) (5)	74,691	82,483
Variable rate construction loan due 2010 (6)	52,109	41,741
	<u>754,399</u>	<u>720,727</u>
Unsecured indebtedness:		
5.85% (5.88% effective rate) notes due 2017 (7)	391,046	390,928
7.50% notes due 2018	200,000	200,000
Variable rate term loans due between 2011 and 2012 (8)	147,500	157,500
Revolving credit facility due 2013 (9)	30,000	—
	<u>768,546</u>	<u>748,428</u>
Total	<u>\$ 1,522,945</u>	<u>\$ 1,469,155</u>

- (1) The mortgage loans payable are secured by real estate assets with an aggregate undepreciated book value of approximately \$1.2 billion at December 31, 2010. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term or are prepayable subject to certain conditions including prepayment penalties.
- (2) Net of amortized fair market value discount of \$2.1 million as of December 31, 2010.
- (3) Includes mortgage debt related to SF-HIW Harborview Plaza, LP., a consolidated 20.0% owned joint venture, of \$21.5 million and \$21.9 million at December 31, 2010 and 2009, respectively. See Note 8.
- (4) Includes mortgage debt related to Markel, a consolidated 50.0% owned joint venture, of \$35.0 million and \$35.8 million at December 31, 2010 and 2009, respectively. See Note 10.
- (5) Net of amortized fair market value premium of \$0.4 million at both December 31, 2010 and 2009.
- (6) Maturity date does not reflect a one-year extension option available to us, except in the event of default, related to the \$52.1 million outstanding on our \$70.0 million secured construction facility. The interest rate is 1.12% at December 31, 2010.
- (7) Net of amortized original issuance discount of \$0.8 million and \$0.9 million at December 31, 2010 and 2009, respectively.
- (8) The interest rates are 3.90% and 1.36% on our \$10.0 million and \$137.5 million term loans, respectively, as of December 31, 2010.
- (9) The interest rate is 3.16% on our revolving credit facility at December 31, 2010.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****6. MORTGAGES AND NOTES PAYABLE - Continued**

The following table sets forth scheduled future principal payments, including amortization, due on our mortgages and notes payable at December 31, 2010:

Years Ending December 31,	Principal Amount
2011 (1)	\$ 201,375
2012	224,649
2013	272,922
2014	34,841
2015	42,005
Thereafter	747,153
	<u>\$ 1,522,945</u>

- (1) This amount does not reflect a one-year extension option available to us, except in the event of default, related to amounts outstanding under our \$70.0 million secured construction facility.

Our \$400.0 million unsecured revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional \$50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There was \$30.0 million and \$20.0 million outstanding under our revolving credit facility at December 31, 2010 and February 2, 2011, respectively. At both December 31, 2010 and February 2, 2011, we had \$0.5 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2010 and February 2, 2011 was \$369.5 million and \$379.5 million, respectively.

Our \$70.0 million secured construction facility, of which \$52.1 million was outstanding at December 31, 2010, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points. This facility had \$17.9 million of availability at December 31, 2010 and February 2, 2011.

In 2010, we repaid \$10.0 million of our \$20.0 million, three-year unsecured term loan. Additionally, we repaid the \$5.8 million remaining balance then outstanding on the mortgage payable secured by our 96 rental residential units to unencumber these assets for a planned development project. We incurred a penalty of \$0.6 million related to this early repayment, which is included in loss on debt extinguishment in 2010.

In 2009, we paid off at maturity \$50.0 million of 8.125% unsecured notes and retired the remaining \$107.2 million principal amount of a two-tranched secured loan. We also obtained a \$20.0 million, three-year unsecured term loan bearing interest of 3.90%, a \$115.0 million, six and a half-year secured loan bearing interest of 6.88% and a \$47.3 million, seven-year secured loan bearing interest of 7.50%. We also repurchased \$8.2 million principal amount of unsecured notes due 2017 and obtained a new \$400.0 million unsecured revolving credit facility which replaced the then existing credit facility, as discussed previously.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****6. MORTGAGES AND NOTES PAYABLE - Continued**

In 2008, we obtained a \$137.5 million, three-year unsecured term loan bearing interest of LIBOR plus 110 basis points. We used a portion of the proceeds to pay off at maturity \$100.0 million of 7.125% unsecured notes.

We are currently in compliance with the debt covenants and other requirements with respect to our outstanding debt.

Our revolving credit facility, bank term loan due in February 2011 (\$137.5 million outstanding as of December 31, 2010) and bank term loan due in March 2012 (\$10.0 million outstanding as of December 31, 2010) require us to comply with customary operating covenants and various financial requirements. If we were to fail to make a payment when due with respect to any of our other obligations with aggregate unpaid principal of \$10.0 million, and such failure remains uncured for more than 120 days, the lenders under our credit facility could provide notice of their intent to accelerate all amounts due thereunder. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has \$391.0 million carrying amount of 2017 bonds outstanding and \$200.0 million carrying amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Other Information

Total interest capitalized to development projects was \$1.4 million, \$4.6 million and \$8.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

7. DERIVATIVE FINANCIAL INSTRUMENTS

We had no outstanding interest rate hedge contracts at December 31, 2010 or 2009.

The following table sets forth the effect of our prior cash flow hedges on AOCL and interest expense:

	Years Ended December 31,		
	2010	2009	2008
Derivatives Designated as Cash Flow Hedges:			
Amount of unrealized gain/(loss) recognized in AOCL on derivatives (effective portion):			
Interest rate swaps	\$ —	\$ 937	\$ (1,376)
Amount of loss/(gain) reclassified out of AOCL into interest expense (effective portion) :			
Interest rate swaps	\$ 237	\$ (249)	\$ 181

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per share data)

7. DERIVATIVE FINANCIAL INSTRUMENTS - Continued

The following table sets forth the effect of our prior derivatives not designated as hedging instruments on interest expense:

	Years Ended December 31,		
	2010	2009	2008
Derivatives Not Designated as Hedging Instruments:			
Amount of gain/(loss) recognized in interest expense on derivative:			
Interest rate swaps	\$ —	\$ —	\$ 183

8. FINANCING ARRANGEMENTS

Our financing obligations consist of the following:

	December 31,	
	2010	2009
SF-HIW Harborview, LP financing obligation	\$ 17,616	\$ 16,957
Tax increment financing bond	14,258	15,374
Repurchase obligation	—	4,184
Capitalized ground lease obligation	1,240	1,191
Total	\$ 33,114	\$ 37,706

Harborview

Our joint venture partner in Harborview has the right to put its 80.0% equity interest in the joint venture to us in exchange for cash at any time during the one-year period commencing September 11, 2014. The value of the 80.0% equity interest will be determined at the time that our partner elects to exercise its put right, if ever, based upon the then fair market value of Harborview LP's assets and liabilities, less 3.0%, which amount was intended to cover the normal costs of a sale transaction. Because of the put option, this transaction is accounted for as a financing transaction. Accordingly, the assets, liabilities and operations related to Harborview Plaza, the property owned by Harborview LP remain in our Consolidated Financial Statements.

As a result, we established a financing obligation equal to the \$12.7 million net equity contributed by the other partner. At the end of each reporting period, the balance of the gross financing obligation is adjusted to equal the greater of the original financing obligation of \$12.7 million or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was \$10.2 million and \$12.2 million at December 31, 2010 and 2009, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

8. FINANCING ARRANGEMENTS - Continued

Tax Increment Financing Bond

In connection with tax increment financing for construction of a public garage related to a wholly owned office building, we are obligated to pay fixed special assessments over a 20-year period ending in 2019. The net present value of these assessments, discounted at 6.93% at the inception of the obligation, which represents the interest rate on the underlying bond financing, is recorded as a financing obligation. We receive special tax revenues and property tax rebates recorded in interest and other income, which are intended, but not guaranteed, to provide funds to pay the special assessments. We acquired the underlying bond in a privately negotiated transaction in 2007 (see Note 11).

Repurchase Obligation

In connection with a disposition in 2009 of a building located in Raleigh, NC, the buyer had a limited right to put the building to us in exchange for the sales price plus certain costs if we had been unable to satisfy a certain post-closing requirement by March 1, 2010. Accordingly, the assets, liabilities and operations of the building remained in our Consolidated Financial Statements during this contingency period. We satisfied this post-closing requirement in the first quarter of 2010 and accordingly, met the requirements to record a completed sale in the first quarter of 2010.

Capitalized Ground Lease Obligation

The capitalized ground lease obligation represents an obligation to the lessor of land on which we constructed a building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated at the inception of the lease using a discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes into interest expense each month for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

9. COMMITMENTS AND CONTINGENCIES

Operating Ground Leases

Certain Wholly Owned Properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the consumer price index or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was \$1.5 million, \$1.6 million and \$1.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****9. COMMITMENTS AND CONTINGENCIES - Continued**

The following table sets forth our scheduled obligations for future minimum payments on operating ground leases at December 31, 2010:

2011	\$	1,129
2012		1,150
2013		1,171
2014		1,193
2015		1,217
Thereafter		29,897
	\$	<u>35,757</u>

Completion Contracts

We have approximately \$8.6 million of completion contracts at December 31, 2010. Completion contracts relate to payments to be made under current contracts for various development/construction projects, which we expect to pay in 2011.

Environmental Matters

Substantially all of our in-service and development properties have been subjected to Phase I environmental assessments and, in certain instances, Phase II environmental assessments. Such assessments and/or updates have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our Consolidated Financial Statements.

DLF I Obligation

At the formation of DLF I, the amount our partner contributed in cash to the venture and subsequently distributed to us was determined to be \$7.2 million in excess of the amount required based on its ownership interest and the agreed-upon value of the real estate assets. We are required to repay this amount over 14 years, beginning in the first quarter of 1999. The \$7.2 million was discounted to net present value of \$3.8 million using a discount rate of 9.62% specified in the agreement. Payments of \$0.6 million were made in each of the years ended December 31, 2010, 2009 and 2008. The balance at December 31, 2010 and 2009 is \$1.2 million and \$1.6 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

Litigation, Claims and Assessments

We are from time to time a party to a variety of legal proceedings, claims and assessments arising in the ordinary course of our business. We regularly assess the liabilities and contingencies in connection with these matters based on the latest information available. For those matters where it is probable that we have incurred or will incur a loss and the loss or range of loss can be reasonably estimated, the estimated loss is accrued and charged to income in our Consolidated Financial Statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, a reasonable estimate of liability, if any, cannot be made. Based on the current expected outcome of such matters, none of these proceedings, claims or assessments is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per share data)

10. NONCONTROLLING INTERESTS**Noncontrolling Interests in the Operating Partnership**

Noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company. Net income attributable to noncontrolling interests in the Operating Partnership is computed by applying the weighted average percentage of Common Units not owned by the Company during the period, as a percent of the total number of outstanding Common Units, to the Operating Partnership's net income for the period after deducting distributions on Preferred Units. When a noncontrolling unitholder redeems a Common Unit for a share of Common Stock or cash, the noncontrolling interests in the Operating Partnership are reduced and the Company's share in the Operating Partnership is increased by the fair value of each security at the time of redemption.

The following table sets forth noncontrolling interests in the Operating Partnership:

	Years Ended December 31,	
	2010	2009
Beginning noncontrolling interests in the Operating Partnership	\$ 129,769	\$ 111,278
Adjustments of noncontrolling interests in the Operating Partnership to fair value	(2,721)	27,717
Conversion of Common Units to Common Stock	(3,061)	(5,591)
Net income attributable to noncontrolling interests in the Operating Partnership	3,320	3,197
Distributions to noncontrolling interests in the Operating Partnership	(6,469)	(6,832)
Total noncontrolling interests in the Operating Partnership	<u>\$ 120,838</u>	<u>\$ 129,769</u>

The following table sets forth net income available for common stockholders and transfers from noncontrolling interests in the Operating Partnership:

	Years Ended December 31,		
	2010	2009	2008
Net income available for common stockholders	\$ 61,790	\$ 51,778	\$ 22,080
Increase in additional paid in capital from conversion of Common Units to Common Stock	3,060	5,589	2,021
Change from net income available for common stockholders and transfers from noncontrolling interests	<u>\$ 64,850</u>	<u>\$ 57,367</u>	<u>\$ 24,101</u>

Noncontrolling Interests in Consolidated Affiliates

At December 31, 2010, noncontrolling interests in consolidated affiliates, a component of equity, relates to our respective joint venture partners' 50.0% interest in Markel. Our joint venture partner is an unrelated third party.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, noncontrolling interests in the Operating Partnership and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are investments in marketable securities which we use to pay benefits under our non-qualified deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company. Our Level 1 liability is our non-qualified deferred compensation obligation.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

We had no Level 2 assets or liabilities at December 31, 2010 and 2009.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 assets are our tax increment financing bond, which is not routinely traded but whose fair value is determined using the income approach to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds, and real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which were valued using independent appraisals, substantiated by internal cash flow analyses.

The following tables set forth the assets, noncontrolling interests in the Operating Partnership and liability that we measure at fair value by level within the fair value hierarchy. We determine the level based on the lowest level of substantive input used to determine fair value.

		Level 1	Level 3
		Quoted	
		Prices in	
		Active	
		Markets for	
		Identical	Significant
		Assets or	Unobservable
	December 31,	Liabilities	Inputs
	2010		
Assets:			
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	\$ 3,479	\$ 3,479	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	15,699	—	15,699
Total Assets	\$ 19,178	\$ 3,479	\$ 15,699
Noncontrolling Interests in the Operating Partnership	\$ 120,838	\$ 120,838	\$ —
Liability:			
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	\$ 4,091	\$ 4,091	\$ —

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

		Level 1	Level 3
		Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Unobservable Inputs
	December 31, 2009		
Assets:			
Marketable securities of non-qualified deferred compensation plan	\$ 6,135	\$ 6,135	\$ —
Tax increment financing bond	16,871	—	16,871
Impaired real estate assets	32,000	—	32,000
Total Assets	\$ 55,006	\$ 6,135	\$ 48,871
Noncontrolling Interests in the Operating Partnership			
	\$ 129,769	\$ 129,769	\$ —
Liability:			
Non-qualified deferred compensation obligation	\$ 6,898	\$ 6,898	\$ —

The following table sets forth the changes in our Level 3 asset:

	December 31,	
	2010	2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	\$ 16,871	\$ 17,468
Principal repayment	(995)	(890)
Unrealized gain/(loss) (in AOCL)	(177)	293
Ending balance	\$ 15,699	\$ 16,871

In 2007, we acquired a tax increment financing bond associated with a property developed by us. This bond amortizes to maturity in 2020. The estimated fair value at December 31, 2010 was \$2.5 million below the outstanding principal due on the bond. If the yield-to-maturity used to fair value this bond was 100 basis points higher or lower, the fair value of the bond would have been \$0.7 million lower or higher, respectively, as of December 31, 2010. Currently, we intend to hold this bond and have concluded that we will not be required to sell this bond before recovery of the bond principal. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond in the years ended December 31, 2010 and 2009. There is no legal right of offset with the liability, which we report as a financing obligation, related to this tax increment financing bond.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The following table sets forth the carrying amounts and fair values of our financial instruments not disclosed elsewhere:

	Carrying Amount	Fair Value
December 31, 2010		
Mortgages and notes receivable	\$ 19,044	\$ 19,093
Mortgages and notes payable	\$ 1,522,945	\$ 1,581,518
Financing obligations (including Harborview financing obligation)	\$ 33,114	\$ 23,880
December 31, 2009		
Mortgages and notes receivable	\$ 3,143	\$ 3,143
Mortgages and notes payable	\$ 1,469,155	\$ 1,440,317
Financing obligations (including Harborview financing obligation)	\$ 37,706	\$ 31,664

The carrying values of our cash and cash equivalents, restricted cash, accounts receivable, marketable securities of non-qualified deferred compensation plan, tax increment financing bond, non-qualified deferred compensation obligation and noncontrolling interests in the Operating Partnership are equal to or approximate fair value. The fair values of our mortgages and notes receivable, mortgages and notes payable and financing obligations were estimated using the income or market approaches to approximate the price that would be paid in an orderly transaction between market participants on the respective measurement dates.

12. EQUITY

Common Stock Offerings

In 2009, the Company sold 7.0 million shares of Common Stock for net proceeds of \$144.1 million. We used a portion of the net proceeds of the offering to retire the remaining \$107.2 million principal amount of a two-tranched secured loan. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

In 2008, the Company sold 5.5 million shares of Common Stock for net proceeds of \$195.0 million. We used a portion of the net proceeds of the offering to repurchase 53,845 outstanding 8.625% Series A Cumulative Redeemable Preferred Shares for an aggregate purchase price of \$52.5 million. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

Common Stock Dividends

Dividends declared and paid per share of Common Stock aggregated \$1.70 for each of the years ended December 31, 2010, 2009 and 2008.

The following table sets forth the estimated taxability to the common stockholders of dividends per share for federal income tax purposes:

	Years Ended December 31,		
	2010	2009	2008
Ordinary income	\$ 0.41	\$ 1.09	\$ 0.97
Capital gains	0.44	0.60	0.20
Return of capital	0.85	0.01	0.53
Total	<u>\$ 1.70</u>	<u>\$ 1.70</u>	<u>\$ 1.70</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

12. EQUITY - Continued

Our tax returns have not been examined by the Internal Revenue Service ("IRS") and, therefore, the taxability of dividends is subject to change.

Preferred Stock

The following table sets forth our Preferred Stock:

Preferred Stock Issuances	Issue Date	Number of Shares Outstanding (in thousands)	Carrying Value	Liquidation Preference Per Share	Optional Redemption Date	Annual Dividends Payable Per Share
December 31, 2010 and 2009:						
8.625% Series A Cumulative Redeemable	2/12/1997	29	\$ 29,092	\$ 1,000	2/12/2027	\$ 86.25
8.000% Series B Cumulative Redeemable	9/25/1997	2,100	\$ 52,500	\$ 25	9/25/2002	\$ 2.00

The following table sets forth the estimated taxability to the preferred stockholders of dividends per share for federal income tax purposes:

	Years Ended December 31,		
	2010	2009	2008
8.625% Series A Cumulative Redeemable:			
Ordinary income	\$ 41.80	\$ 55.86	\$ 71.20
Capital gains	44.45	30.39	15.05
Total	<u>\$ 86.25</u>	<u>\$ 86.25</u>	<u>\$ 86.25</u>
8.000% Series B Cumulative Redeemable:			
Ordinary income	\$ 0.97	\$ 1.30	\$ 1.65
Capital gains	1.03	0.70	0.35
Total	<u>\$ 2.00</u>	<u>\$ 2.00</u>	<u>\$ 2.00</u>

In 2008, we repurchased 53,845 outstanding 8.625% Series A Preferred Shares for an aggregate purchase price of \$52.5 million.

Warrants

Warrants to acquire Common Stock were issued in 1997 and 1999 in connection with property acquisitions. In 2010 and 2009, there were no warrants exercised. In 2008, 10,000 warrants with an exercise price of \$32.50 were exercised. At December 31, 2010, there are 15,000 warrants outstanding with an exercise price of \$32.50. These warrants have no expiration date.

Dividend Reinvestment Plan

We have a Dividend Reinvestment and Stock Purchase Plan under which holders of Common Stock may elect to automatically reinvest their dividends in additional shares of Common Stock and make optional cash payments for additional shares of Common Stock. We may elect to satisfy such obligations by issuing additional shares of Common Stock or instructing the plan administrator to purchase Common Stock in the open market.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****13. EMPLOYEE BENEFIT PLANS****Officer, Management and Director Compensation Programs**

Our officers participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. In addition to considering the pay practices of our peer group in determining each officer's incentive payment percentage, the officer's ability to influence our performance is also considered. Each officer has a target annual non-equity incentive payment percentage that ranges from 25% to 130% of base salary depending on the officer's position. The officer's actual incentive payment for the year is the product of the target annual incentive payment percentage times a "performance factor," which can range from zero to 200%. This performance factor depends upon the relationship between how various performance criteria compare with predetermined goals. For an officer who has division responsibilities, goals for certain performance criteria are based partly on the division's actual performance relative to that division's established goals and partly on actual total performance. Incentive payments are accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

Certain other members of management participate in an annual non-equity incentive program whereby a target annual cash incentive payment is established based upon the job responsibilities of their position. Incentive payment eligibility ranges from 10% to 30% of annual base salary. The actual incentive payment is determined by our overall performance and the individual's performance during each year. These incentive payments are also accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

The following table sets forth the number of shares of Common Stock reserved for future issuance:

	December 31,	
	2010	2009
Outstanding stock options and warrants	1,495,196	1,482,773
Possible future issuance under equity incentive plans	2,642,620	3,000,000
	<u>4,137,816</u>	<u>4,482,773</u>

Our officers generally receive annual grants of stock options and restricted stock on or about March 1 of each year. Restricted stock grants are also made annually to directors and certain non-officer employees. At December 31, 2010, there was remaining availability of 2.6 million shares of Common Stock reserved for future issuance under the 2009 Long Term Equity Incentive Plan, of which no more than 0.8 million can be in the form of restricted stock. At December 31, 2010, we had 128.3 million remaining shares of Common Stock authorized to be issued under our charter.

Additional total return-based restricted stock may be issued at the end of the three-year periods if actual performance exceeds certain levels of performance. Such additional shares, if any, would be fully vested when issued. No expense is recorded for additional shares of total return-based restricted stock that may be issued at the end of the three-year period since that possibility is already reflected in the grant date fair value.

Dividends received on restricted stock are non-forfeitable and are paid at the same rate and on the same date as on shares of Common Stock. Dividends paid on subsequently forfeited shares are expensed.

During the years ended December 31, 2010, 2009 and 2008, we recognized \$6.6 million, \$6.6 million and \$6.7 million, respectively, of share-based compensation expense. Because we generally do not pay income taxes we do not realize tax benefits on share-based payments. At December 31, 2010, there was \$6.2 million of total unrecognized share-based compensation costs, which will be recognized over vesting periods that have a weighted average remaining term of 2.1 years.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

13. EMPLOYEE BENEFIT PLANS - Continued

- Stock Options

Stock options issued prior to 2005 vest ratably over four years and remain outstanding for 10 years. Stock options issued beginning in 2005 vest ratably over a four-year period and remain outstanding for seven years. The value of all options as of the date of grant is calculated using the Black-Scholes option-pricing model and is amortized over the respective vesting or service period. The fair values of options granted during 2010, 2009 and 2008 were \$4.96, \$1.82 and \$3.18, respectively, per option. The fair values of the options granted were determined at the grant dates using the following assumptions:

	2010	2009	2008
Risk free interest rate (1)	2.58%	2.31%	2.67%
Common stock dividend yield (2)	5.85%	8.96%	5.77%
Expected volatility (3)	32.2%	29.9%	22.64%
Average expected option life (years) (4)	5.75	5.75	5.75

- (1) Represents the interest rate as of the grant date on US treasury bonds having the same life as the estimated life of the option grants.
- (2) The dividend yield is calculated utilizing the dividends paid for the previous one-year period and the per share price of Common Stock on the date of grant.
- (3) Based on the historical volatility of Common Stock over a period relevant to the related stock option grant.
- (4) The average expected option life is based on an analysis of our historical data.

The following table sets forth stock option grants:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 2007	1,909,821	\$ 26.45
Options granted	319,091	29.48
Options cancelled	(16,331)	31.66
Options exercised	(723,331)	22.95
Balances at December 31, 2008	1,489,250	28.74
Options granted	394,044	19.00
Options cancelled	(111,590)	27.65
Options exercised	(303,931)	24.18
Balances at December 31, 2009	1,467,773	27.15
Options granted	190,826	29.05
Options exercised	(178,403)	22.54
Balances at December 31, 2010 (1) (2)	1,480,196	\$ 27.95

- (1) The outstanding options at December 31, 2010 had a weighted average remaining life of 3.7 years and intrinsic value of \$7.2 million.
- (2) We have 806,782 options exercisable at December 31, 2010 with weighted average exercise price of \$30.10, weighted average remaining life of 2.6 years and intrinsic value of \$2.5 million. Of these exercisable options, 298,046 had exercise prices higher than the market price of our Common Stock at December 31, 2010.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****13. EMPLOYEE BENEFIT PLANS - Continued**

Cash received or receivable from options exercised was \$4.4 million, \$7.4 million and \$15.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was \$1.7 million, \$2.0 million and \$9.6 million, respectively. The total intrinsic value of options outstanding at December 31, 2010, 2009 and 2008 was \$7.2 million, \$10.3 million and \$1.7 million, respectively. We generally do not permit the net cash settlement of exercised stock options, but do permit net share settlement so long as the shares received are held for at least one year. We have a policy of issuing new shares to satisfy stock option exercises.

- Time-Based Restricted Stock

Shares of time-based restricted stock issued to officers and employees generally vest 25% on the first, second, third and fourth anniversary dates, respectively. Shares of time-based restricted stock issued to directors generally vest 25% on January 1 of each successive year after the grant date. The value of grants of time-based restricted stock is based on the market value of Common Stock as of the date of grant and is amortized to expense over the respective vesting or service periods.

The following table sets forth time-based restricted stock grants:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2007	356,497	\$ 34.89
Awarded and issued (1)	92,150	30.13
Vested (2)	(113,823)	33.13
Forfeited	(5,029)	32.11
Restricted shares outstanding at December 31, 2008	329,795	34.21
Awarded and issued (1)	128,384	19.33
Vested (2)	(132,779)	33.38
Forfeited	(9,326)	31.26
Restricted shares outstanding at December 31, 2009	316,074	28.60
Awarded and issued (1)	88,930	29.05
Vested (2)	(138,745)	31.81
Forfeited	(1,933)	25.86
Restricted shares outstanding at December 31, 2010	<u>264,326</u>	<u>\$ 27.08</u>

-
- (1) The fair value at grant date of time-based restricted stock issued during the years ended December 31, 2010, 2009 and 2008 was \$2.6 million, \$2.5 million and \$2.8 million, respectively.
- (2) The vesting date fair value of time-based restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was \$4.3 million, \$2.9 million and \$4.8 million, respectively.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per share data)

13. EMPLOYEE BENEFIT PLANS - Continued**- Total Return-Based and Performance-Based Restricted Stock**

During 2010, 2009 and 2008, we issued shares of total return-based restricted stock to officers that will vest from zero to 250% based on (1) our absolute total returns for the three-year periods ended December 31, 2010, 2011 and 2012, respectively, relative to defined target returns and (2) whether our total return exceeds the average total returns of a selected group of peer companies. The grant date fair value of such shares of total return-based restricted stock was determined to be 101%, 53.6% and 100%, respectively, of the market value of a share of Common Stock as of the grant date and is amortized over the respective three-year period.

During 2008, we also issued shares of performance-based restricted stock to officers that will vest pursuant to certain performance-based criteria. The performance-based criteria are based on whether or not we meet or exceed at the end of three-year performance periods certain operating and financial goals established under our Strategic Plan. To the extent actual performance equals or exceeds threshold performance goals, the portion of shares of performance-based restricted stock that vest can range from 50% to 100%. If actual performance does not meet such threshold goals, none of the performance-based restricted stock will vest. The fair value of performance-based restricted share grants is based on the market value of Common Stock as of the date of grant and the estimated performance to be achieved at the end of the three-year period. Such fair value is being amortized to expense during the period from grant date to the vesting dates, adjusting for the expected level of vesting that will occur at those dates.

The following table sets forth total return-based and performance-based restricted stock grants:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2007	135,472	\$ 32.52
Awarded and issued (1)	77,878	29.75
Vested (2)	(59,892)	26.82
Forfeited	(2,116)	29.23
Restricted shares outstanding at December 31, 2008	151,342	33.39
Awarded and issued (1)	127,594	15.01
Vested (2)	(68,929)	32.66
Forfeited	(7,232)	34.14
Restricted shares outstanding at December 31, 2009	202,775	22.05
Awarded and issued (1)	77,624	29.05
Vested (2)	(47,257)	38.50
Forfeited	(1,307)	22.99
Restricted shares outstanding at December 31, 2010	<u>231,835</u>	<u>\$ 21.03</u>

(1) The fair value at grant date of performance-based and total return-based restricted stock issued during the years ended December 31, 2010, 2009 and 2008 was \$2.3 million, \$1.9 million and \$2.3 million, respectively.

(2) The vesting date fair value of performance-based and total return-based restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was \$1.6 million, \$2.6 million and \$2.4 million, respectively.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****13. EMPLOYEE BENEFIT PLANS - Continued****Retirement Plan**

We have adopted a retirement plan applicable to all employees, including officers, who, at the time of retirement, have at least 30 years of continuous qualified service or are at least 55 years old and have at least 10 years of continuous qualified service. Subject to advance retirement notice and execution of a non-compete agreement with us, eligible retirees are entitled to receive a pro rata amount of the annual incentive payment earned during the year of retirement. Stock options and restricted stock granted by us to such eligible retiree during his or her employment would be non-forfeitable and vest according to the terms of their original grants. The benefits of this retirement plan apply only to restricted stock and stock option grants and have been phased in 25% on March 1, 2006 and 25% on each anniversary thereof. For employees who meet the age and service eligibility requirements, 75% of their 2008 grants and 100% of their grants thereafter were deemed fully vested at the grant date, which increased compensation expense by approximately \$1.1 million, \$0.6 million and \$0.6 million in the years ended December 31, 2010, 2009 and 2008, respectively.

Deferred Compensation

We have a non-qualified deferred compensation plan pursuant to which each officer and director could elect to defer a portion of their base salary and/or annual non-equity incentive payment (or director fees) which are invested by us in various mutual funds. We indefinitely suspended this option to defer compensation earned after January 1, 2010. These investments are recorded at fair value which aggregated \$3.5 million and \$6.1 million at December 31, 2010 and 2009, respectively, and are included in prepaid expenses and other assets, with an offsetting deferred compensation liability recorded in accounts payable, accrued expenses and other liabilities. Such deferred compensation is expensed in the period earned by the officers and directors. Deferred amounts ultimately payable to the officers and directors are based on the value of the related mutual fund investments. Accordingly, changes in the value of the marketable mutual fund investments are recorded in interest and other income and the corresponding offsetting changes in the deferred compensation liability are recorded in general and administration expense. As a result, there is no effect on our net income subsequent to the time the compensation is deferred and fully funded.

The following table sets forth our deferred compensation liability:

	Years Ended December 31,		
	2010	2009	2008
Beginning deferred compensation liability	\$ 6,898	\$ 6,522	\$ 7,867
Contributions to deferred compensation plans	229	—	1,574
Mark-to-market adjustment to deferred compensation (general and administrative expense)	246	1,497	(2,177)
Distributions from deferred compensation plans	(3,282)	(1,121)	(742)
Total deferred compensation liability	<u>\$ 4,091</u>	<u>\$ 6,898</u>	<u>\$ 6,522</u>

401(k) Savings Plan

We have a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. We contribute amounts for each participant at a rate of 75% of the employee's contribution (up to 6% of each employee's bi-weekly salary and cash incentives subject to statutory limits). During the years ended December 31, 2010, 2009 and 2008, we contributed \$1.0 million, \$1.0 million and \$1.1 million, respectively, to the 401(k) savings plan. The assets of this qualified plan are not included in our Consolidated Financial Statements since the assets are not owned by us. Administrative expenses of the plan are paid by us.

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per share data)

13. EMPLOYEE BENEFIT PLANS - Continued**Employee Stock Purchase Plan**

We have an Employee Stock Purchase Plan pursuant to which employees generally may contribute up to 25.0% of their base and annual non-equity incentive compensation for the purchase of Common Stock. At the end of each three-month offering period, the contributions in each participant's account balance, which includes accrued dividends, is applied to acquire shares of Common Stock at a cost that was calculated during 2010, 2009 and 2008 at 85.0% of the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. In the years ended December 31, 2010, 2009 and 2008, the Company issued 27,378, 37,287 and 29,324 shares, respectively, of Common Stock under the Employee Stock Purchase Plan. The discount on newly issued shares is expensed by us as additional compensation and aggregated \$0.1 million, \$0.3 million and \$0.2 million in the years ended December 31, 2010, 2009 and 2008, respectively.

14. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income represents net income plus the changes in certain amounts deferred in accumulated other comprehensive loss related to hedging activities and changes in fair market value of an available for-sale security. The following table sets forth the components of comprehensive income:

	Years Ended December 31,		
	2010	2009	2008
Net income	\$ 72,303	\$ 61,694	\$ 35,610
Other comprehensive income:			
Unrealized gain/(loss) on tax increment financing bond	(177)	293	(2,659)
Unrealized gains/(losses) on cash flow hedges	—	937	(1,376)
Amortization of settled cash flow hedges	237	(249)	181
Settlement of past cash flow hedge from disposition of investment in unconsolidated affiliate	103	—	—
Total other comprehensive income/(loss)	163	981	(3,854)
Total comprehensive income	\$ 72,466	\$ 62,675	\$ 31,756

Accumulated other comprehensive loss represents certain amounts deferred related to hedging activities and an available for-sale security. The following table sets forth the components of accumulated other comprehensive loss:

	December 31,	
	2010	2009
Tax increment financing bond	\$ 2,543	\$ 2,366
Settled cash flow hedges	1,105	1,445
	\$ 3,648	\$ 3,811

HIGHWOODS PROPERTIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****15. RENTAL AND OTHER REVENUES; RENTAL PROPERTY AND OTHER EXPENSES**

Our real estate assets are leased to customers under operating leases. The minimum rental amounts under the leases are generally subject to scheduled fixed increases. Generally, the leases also require that the customers reimburse us for increases in certain costs above the base-year costs. The following table sets forth rental and other revenues from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Contractual rents, net	\$ 400,383	\$ 394,503	\$ 382,885
Straight-line rental income, net	11,205	3,521	6,192
Amortization of lease incentives	(1,239)	(1,100)	(1,020)
Property operating expense recoveries, net	41,906	44,561	45,849
Lease termination fees	2,992	1,813	2,561
Fee income	5,466	5,155	5,149
Other miscellaneous operating revenues	2,608	1,701	3,652
	<u>\$ 463,321</u>	<u>\$ 450,154</u>	<u>\$ 445,268</u>

The following table sets forth scheduled future minimum base rents to be received from customers for leases in effect at December 31, 2010 for the Wholly Owned Properties:

2011	\$ 401,997
2012	362,784
2013	312,210
2014	258,113
2015	203,491
Thereafter	665,366
	<u>\$ 2,203,961</u>

The following table sets forth rental property and other expenses from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Utilities, insurance and real estate taxes	\$ 91,243	\$ 91,609	\$ 86,363
Maintenance, cleaning and general building	57,170	56,413	57,925
Property management and administrative expenses	11,400	11,806	11,533
Other miscellaneous operating expenses	4,575	2,984	4,163
	<u>\$ 164,388</u>	<u>\$ 162,812</u>	<u>\$ 159,984</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

16. DISCONTINUED OPERATIONS

The following table sets forth our operations which required classification as discontinued operations:

	Years Ended December 31,		
	2010	2009	2008
Rental and other revenues	\$ 1,432	\$ 9,156	\$ 20,597
Operating expenses:			
Rental property and other expenses	656	3,476	7,887
Depreciation and amortization	365	1,855	4,785
Impairment of assets held for use	—	10,964	29,439
Total operating expenses	1,021	16,295	42,111
Interest expense	—	67	—
Other income	—	3	31
Income/(loss) before gains/(losses) on disposition of discontinued operations	411	(7,203)	(21,483)
Net gains/(losses) on disposition of discontinued operations	(86)	21,466	18,485
Total discontinued operations	<u>\$ 325</u>	<u>\$ 14,263</u>	<u>\$ (2,998)</u>
Carrying value of assets held for sale and assets sold that qualified for discontinued operations during the year	<u>\$ 28,006</u>	<u>\$ 82,986</u>	<u>\$ 132,489</u>

The following table sets forth the major classes of assets and liabilities of the properties held for sale:

	December 31,	
	2010	2009
Assets:		
Land	\$ —	\$ 867
Buildings and tenant improvements	20	3,876
Land held for development	1,197	1,197
Accumulated depreciation	—	(1,484)
Net real estate assets	1,217	4,456
Accrued straight line rents receivable	—	289
Deferred leasing costs, net	—	209
Prepaid expenses and other assets	32	77
Real estate and other assets, net, held for sale	<u>\$ 1,249</u>	<u>\$ 5,031</u>
Tenant security deposits, deferred rents and accrued costs (1)	<u>\$ 12</u>	<u>\$ 12</u>

(1) Included in accounts payable, accrued expenses and other liabilities.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

17. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Years Ended December 31,		
	2010	2009	2008
Earnings per common share - basic:			
Numerator:			
Income from continuing operations	\$ 71,978	\$ 47,431	\$ 38,608
Net (income) attributable to noncontrolling interests in the Operating Partnership from continuing operations	(3,303)	(2,394)	(1,766)
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(485)	(11)	(2,041)
Dividends on preferred stock	(6,708)	(6,708)	(9,804)
Excess of preferred stock redemption/repurchase cost over carrying value	—	—	(108)
Income from continuing operations available for common stockholders	61,482	38,318	24,889
Income/(loss) from discontinued operations	325	14,263	(2,998)
Net (income)/loss attributable to noncontrolling interests in the Operating Partnership from discontinued operations	(17)	(803)	189
Income/(loss) from discontinued operations available for common stockholders	308	13,460	(2,809)
Net income available for common stockholders	<u>\$ 61,790</u>	<u>\$ 51,778</u>	<u>\$ 22,080</u>
Denominator:			
Denominator for basic earnings per Common Share – weighted average shares (1) (2)	<u>71,578</u>	<u>67,971</u>	<u>59,320</u>
Earnings per common share - basic:			
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42
Income/(loss) from discontinued operations available for common stockholders	—	0.20	(0.05)
Net income available for common stockholders	<u>\$ 0.86</u>	<u>\$ 0.76</u>	<u>\$ 0.37</u>
Earnings per common share - diluted:			
Numerator:			
Income from continuing operations	\$ 71,978	\$ 47,431	\$ 38,608
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(485)	(11)	(2,041)
Dividends on preferred stock	(6,708)	(6,708)	(9,804)
Excess of preferred stock redemption/repurchase cost over carrying value	—	—	(108)
Income from continuing operations available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	64,785	40,712	26,655
Income/(loss) from discontinued operations available for common stockholders	325	14,263	(2,998)
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	<u>\$ 65,110</u>	<u>\$ 54,975</u>	<u>\$ 23,657</u>
Denominator:			
Denominator for basic earnings per Common Share –weighted average shares (1) (2)	71,578	67,971	59,320
Add:			
Stock options using the treasury method	198	79	201
Noncontrolling interests partnership units	3,802	4,029	3,971
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)	<u>75,578</u>	<u>72,079</u>	<u>63,492</u>
Earnings per common share - diluted:			
Income from continuing operations available for common stockholders	\$ 0.86	\$ 0.56	\$ 0.42
Income/(loss) from discontinued operations available for common stockholders	—	0.20	(0.05)
Net income available for common stockholders	<u>\$ 0.86</u>	<u>\$ 0.76</u>	<u>\$ 0.37</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

17. EARNINGS PER SHARE - CONTINUED

- (1) Options and warrants aggregating approximately 0.7 million, 1.0 million and 1.4 million shares were outstanding during the years ended December 31, 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because the impact of including such shares would be anti-dilutive to the earnings per share calculation.
- (2) Includes all unvested restricted stock since dividends on such restricted stock are non-forfeitable.

18. INCOME TAXES

Our Consolidated Financial Statements include the operations of our taxable REIT subsidiary, which is subject to corporate, state and local income taxes. As a REIT, we may also be subject to certain federal excise taxes if we engage in certain types of transactions.

The minimum dividend per share of Common Stock required for us to maintain our REIT status was \$0.32, \$0.89 and \$0.76 per share in 2010, 2009 and 2008, respectively. Continued qualification as a REIT depends on our ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests prescribed in the Code. The tax basis of our assets (net of accumulated tax depreciation and amortization) and liabilities was approximately \$2.4 billion and \$1.6 billion at both December 31, 2010 and 2009.

No provision has been made for federal income taxes during the years ended December 31, 2010, 2009 and 2008 because the Company qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no federal income tax expense during the periods. We recorded state income tax expense in rental property and other expenses of \$0.08 million, \$0.6 million and \$0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. The taxable REIT subsidiary has operated at a cumulative taxable loss through December 31, 2010 of approximately \$7.2 million. In addition to the \$2.8 million deferred tax asset for these cumulative tax loss carryforwards, the taxable REIT subsidiary also had net deferred tax liabilities of approximately \$2.0 million comprised primarily of tax versus book basis differences in certain investments and depreciable assets held by the taxable REIT subsidiary. Because the future tax benefit of the cumulative losses is not assured, the approximate \$0.8 million net deferred tax asset position of the taxable REIT subsidiary has been fully reserved as management does not believe that it is more likely than not that the net deferred tax asset will be realized. The tax benefit of the cumulative losses could be recognized for financial reporting purposes in future periods to the extent the taxable REIT subsidiary generates sufficient taxable income.

We are subject to federal, state and local income tax examinations by tax authorities for 2007 through 2010.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

19. SEGMENT INFORMATION

Our principal business is the operation, acquisition and development of rental real estate properties. We evaluate our business by product type and by geographic location. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

Our accounting policies of the segments are the same as those used in our Consolidated Financial Statements. All operations are within the United States and, at December 31, 2010, no single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues on an annualized basis.

The following table summarizes the rental and other revenues and net operating income, the primary industry property-level performance metric which is defined as rental and other revenues less rental property and other expenses, for each reportable segment:

	Years Ended December 31,		
	2010	2009	2008
Rental and Other Revenues: (1)			
Office:			
Atlanta, GA	\$ 48,051	\$ 48,704	\$ 47,065
Greenville, SC	13,616	14,010	13,982
Kansas City, MO	14,822	14,839	15,349
Memphis, TN	34,982	30,642	25,852
Nashville, TN	59,151	60,551	60,192
Orlando, FL	11,615	11,809	11,402
Piedmont Triad, NC	23,350	23,391	23,418
Raleigh, NC	75,604	72,521	69,696
Richmond, VA	47,191	46,617	47,972
Tampa, FL	72,522	67,294	65,854
Total Office Segment	400,904	390,378	380,782
Industrial:			
Atlanta, GA	15,159	15,611	15,721
Piedmont Triad, NC	12,376	12,778	12,674
Total Industrial Segment	27,535	28,389	28,395
Retail:			
Kansas City, MO	33,527	29,997	34,633
Piedmont Triad, NC	—	185	221
Raleigh, NC	135	120	36
Total Retail Segment	33,662	30,302	34,890
Residential:			
Kansas City, MO	1,220	1,085	1,201
Total Residential Segment	1,220	1,085	1,201
Total Rental and Other Revenues	\$ 463,321	\$ 450,154	\$ 445,268

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

19. SEGMENT INFORMATION - Continued

	Years Ended December 31,		
	2010	2009	2008
Net Operating Income: (1)			
Office:			
Atlanta, GA	\$ 30,368	\$ 30,754	\$ 28,837
Greenville, SC	8,145	8,706	8,812
Kansas City, MO	8,881	9,071	9,248
Memphis, TN	20,829	17,697	15,146
Nashville, TN	39,289	39,067	39,654
Orlando, FL	6,259	6,267	6,306
Piedmont Triad, NC	15,323	15,322	14,916
Raleigh, NC	52,258	48,779	45,745
Richmond, VA	32,052	32,022	32,225
Tampa, FL	45,482	40,083	39,349
Total Office Segment	258,886	247,768	240,238
Industrial:			
Atlanta, GA	10,671	11,606	11,919
Piedmont Triad, NC	9,042	9,740	9,778
Total Industrial Segment	19,713	21,346	21,697
Retail:			
Atlanta, GA (2)	(21)	(21)	(26)
Kansas City, MO	19,938	18,174	22,577
Piedmont Triad, NC	—	12	177
Raleigh, NC (2)	37	9	(60)
Total Retail Segment	19,954	18,174	22,668
Residential:			
Kansas City, MO	742	581	715
Raleigh, NC (2)	(362)	(527)	(34)
Total Residential Segment	380	54	681
Total Net Operating Income	298,933	287,342	285,284
Reconciliation to income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates:			
Depreciation and amortization	(135,793)	(130,028)	(122,835)
Impairment of assets held for use	—	(2,554)	(3,407)
General and administrative expense	(32,948)	(36,682)	(38,043)
Interest expense	(93,372)	(86,805)	(98,492)
Other income	5,657	9,549	3,825
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	\$ 42,477	\$ 40,822	\$ 26,332

(1) Net of discontinued operations.

(2) Consists of real estate taxes and other carrying costs associated with land held for development that is currently zoned for the respective product type.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

19. SEGMENT INFORMATION - Continued

	December 31,		
	2010	2009	2008
Total Assets:			
Office:			
Atlanta, GA	\$ 268,772	\$ 275,464	\$ 277,472
Baltimore, MD	1,787	1,787	1,793
Greenville, SC	73,931	78,567	83,554
Kansas City, MO	84,197	85,681	87,954
Memphis, TN	270,091	220,722	187,316
Nashville, TN	326,855	338,124	348,068
Orlando, FL	47,042	48,821	50,852
Piedmont Triad, NC	126,680	141,971	148,511
Raleigh, NC	457,945	464,729	469,448
Richmond, VA	249,036	249,881	257,221
Tampa, FL	395,931	393,812	379,146
Total Office Segment	2,302,267	2,299,559	2,291,335
Industrial:			
Atlanta, GA	135,858	136,570	137,510
Kansas City, MO	—	—	123
Piedmont Triad, NC	79,321	92,300	100,429
Total Industrial Segment	215,179	228,870	238,062
Retail:			
Atlanta, GA	306	1,044	1,070
Kansas City, MO	172,116	175,757	224,603
Piedmont Triad, NC	—	1,082	10,423
Raleigh, NC	5,170	6,048	4,452
Total Retail Segment	177,592	183,931	240,548
Residential:			
Kansas City, MO	5,925	6,129	6,471
Orlando, FL	2,098	2,147	2,147
Raleigh, NC	9,574	16,291	28,698
Total Residential Segment	17,597	24,567	37,316
Corporate	159,200	150,174	138,909
Total Assets	\$ 2,871,835	\$ 2,887,101	\$ 2,946,170

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

20. QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth quarterly financial information and have been adjusted to reflect discontinued operations:

	Year Ended December 31, 2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (1)	\$ 115,054	\$ 114,339	\$ 116,063	\$ 117,865	\$ 463,321
Income from continuing operations (1)	11,694	40,112	8,773	11,399	71,978
Income/(loss) from discontinued operations (1)	388	(63)	—	—	325
Net income	12,082	40,049	8,773	11,399	72,303
Net (income) attributable to noncontrolling interests in the Operating Partnership	(520)	(1,933)	(366)	(501)	(3,320)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(214)	(215)	148	(204)	(485)
Dividends on preferred stock	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income available for common stockholders	<u>\$ 9,671</u>	<u>\$ 36,224</u>	<u>\$ 6,878</u>	<u>\$ 9,017</u>	<u>\$ 61,790</u>
Earnings per share-basic:					
Income from continuing operations available for common stockholders	\$ 0.13	\$ 0.51	\$ 0.10	\$ 0.12	\$ 0.86
Income from discontinued operations available for common stockholders	0.01	—	—	—	—
Net income available for common stockholders	<u>\$ 0.14</u>	<u>\$ 0.51</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.86</u>
Earnings per share-diluted:					
Income from continuing operations available for common stockholders	\$ 0.13	\$ 0.50	\$ 0.10	\$ 0.12	\$ 0.86
Income from discontinued operations available for common stockholders	0.01	—	—	—	—
Net income available for common stockholders	<u>\$ 0.14</u>	<u>\$ 0.50</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.86</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

20. QUARTERLY FINANCIAL DATA (Unaudited)

	Year Ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (1)	\$ 112,361	\$ 111,914	\$ 113,170	\$ 112,709	\$ 450,154
Income from continuing operations (1)	11,756	14,928	12,304	8,443	47,431
Income/(loss) from discontinued operations (1)	1,444	22,146	269	(9,596)	14,263
Net income/(loss)	13,200	37,074	12,573	(1,153)	61,694
Net (income)/loss attributable to noncontrolling interests in the Operating Partnership	(694)	(2,054)	(591)	142	(3,197)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(18)	(116)	(24)	147	(11)
Dividends on preferred stock	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income/(loss) available for common stockholders	<u>\$ 10,811</u>	<u>\$ 33,227</u>	<u>\$ 10,281</u>	<u>\$ (2,541)</u>	<u>\$ 51,778</u>
Earnings per share-basic:					
Income from continuing operations available for common stockholders	\$ 0.15	\$ 0.19	\$ 0.15	\$ 0.09	\$ 0.56
Income/(loss) from discontinued operations available for common stockholders	0.02	0.31	—	(0.13)	0.20
Net income/(loss) available for common stockholders	<u>\$ 0.17</u>	<u>\$ 0.50</u>	<u>\$ 0.15</u>	<u>\$ (0.04)</u>	<u>\$ 0.76</u>
Earnings per share-diluted:					
Income from continuing operations available for common stockholders	\$ 0.15	\$ 0.19	\$ 0.14	\$ 0.09	\$ 0.56
Income/(loss) from discontinued operations available for common stockholders	0.02	0.31	—	(0.13)	0.20
Net income/(loss) available for common stockholders	<u>\$ 0.17</u>	<u>\$ 0.50</u>	<u>\$ 0.14</u>	<u>\$ (0.04)</u>	<u>\$ 0.76</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

20. QUARTERLY FINANCIAL DATA (Unaudited) – Continued

- (1) The amounts presented may not equal to the amounts previously reported in the most recent Form 10-Qs or prior 10-K for each period as a result of discontinued operations. Below is the reconciliation to the amounts previously reported:

	Quarter Ended		
	March 31, 2010	June 30, 2010	September 30, 2010
Rental and other revenues, as reported	\$ 115,818	\$ 114,339	\$ 116,063
Discontinued operations	(764)	—	—
Rental and other revenues, as adjusted	<u>\$ 115,054</u>	<u>\$ 114,339</u>	<u>\$ 116,063</u>
Income from continuing operations, as reported	\$ 11,894	\$ 40,112	\$ 8,773
Discontinued operations	(200)	—	—
Income from continuing operations, as adjusted	<u>\$ 11,694</u>	<u>\$ 40,112</u>	<u>\$ 8,773</u>
Income/(loss) from discontinued operations, as reported	\$ 188	\$ (63)	\$ —
Additional discontinued operations from properties sold subsequent to the respective reporting period	200	—	—
Income/(loss) from discontinued operations, as adjusted	<u>\$ 388</u>	<u>\$ (63)</u>	<u>\$ —</u>

	Quarter Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Rental and other revenues, as reported	\$ 113,220	\$ 111,914	\$ 113,170	\$ 113,669
Discontinued operations	(859)	—	—	(960)
Rental and other revenues, as adjusted	<u>\$ 112,361</u>	<u>\$ 111,914</u>	<u>\$ 113,170</u>	<u>\$ 112,709</u>
Income/(loss) from continuing operations, as reported	\$ 12,029	\$ 14,928	\$ 12,304	\$ (2,125)
Discontinued operations	(273)	—	—	10,568
Income from continuing operations, as adjusted	<u>\$ 11,756</u>	<u>\$ 14,928</u>	<u>\$ 12,304</u>	<u>\$ 8,443</u>
Income from discontinued operations, as reported	\$ 1,171	\$ 22,146	\$ 269	\$ 972
Additional discontinued operations from properties sold subsequent to the respective reporting period	273	—	—	(10,568)
Income/(loss) from discontinued operations, as adjusted	<u>\$ 1,444</u>	<u>\$ 22,146</u>	<u>\$ 269</u>	<u>\$ (9,596)</u>

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

21 . SUBSEQUENT EVENTS

On February 2, 2011, we obtained a \$200.0 million, five-year unsecured bank term loan bearing interest of LIBOR plus 220 basis points. The funding of this loan will occur on February 25, 2011 and the proceeds will be used on such date to pay off at maturity a \$137.5 million unsecured bank term loan, amounts then outstanding under our revolving credit facility and for general corporate purposes.

On January 26, 2011, the Board of Directors declared a cash dividend of \$0.425 per share of Common Stock payable on March 8, 2011 to stockholders of record on February 14, 2011, a cash dividend of \$21.5625 per share of 8.625% Series A Cumulative Redeemable Preferred Shares payable on February 28, 2011 to stockholders of record on February 15, 2011 and a cash dividend of \$0.50 per share of 8.000% Series B Cumulative Redeemable Preferred Shares payable on March 15, 2011 to stockholders of record on March 1, 2011.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of the General Partner of
Highwoods Realty Limited Partnership
Raleigh, North Carolina

We have audited the accompanying consolidated balance sheets of Highwoods Realty Limited Partnership and subsidiaries (the "Operating Partnership") as of December 31, 2010 and 2009, and the related consolidated statements of income, capital, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Operating Partnership's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Operating Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Operating Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Highwoods Realty Limited Partnership and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 9, 2011

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Balance Sheets

(in thousands, except unit and per unit data)

	December 31,	
	2010	2009
Assets:		
Real estate assets, at cost:		
Land	\$ 347,876	\$ 350,537
Buildings and tenant improvements	2,895,779	2,880,632
Development in process	4,524	—
Land held for development	108,670	104,148
	3,356,849	3,335,317
Less-accumulated depreciation	(835,165)	(781,073)
Net real estate assets	2,521,684	2,554,244
For-sale residential condominiums	8,225	12,933
Real estate and other assets, net, held for sale	1,249	5,031
Cash and cash equivalents	14,198	23,519
Restricted cash	4,399	6,841
Accounts receivable, net of allowance of \$3,595 and \$2,810, respectively	20,716	21,069
Mortgages and notes receivable, net of allowance of \$868 and \$698, respectively	19,044	3,143
Accrued straight-line rents receivable, net of allowance of \$2,209 and \$2,443, respectively	93,435	82,600
Investment in unconsolidated affiliates	62,451	64,894
Deferred financing and leasing costs, net of accumulated amortization of \$59,383 and \$52,129, respectively	85,059	73,517
Prepaid expenses and other assets	40,211	37,947
Total Assets	\$ 2,870,671	\$ 2,885,738
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	\$ 1,522,945	\$ 1,469,155
Accounts payable, accrued expenses and other liabilities	106,716	117,331
Financing obligations	33,114	37,706
Total Liabilities	1,662,775	1,624,192
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 3,793,987 and 3,891,121 outstanding, respectively	120,838	129,769
Series A Preferred Units (liquidation preference \$1,000 per unit), 29,092 shares issued and outstanding	29,092	29,092
Series B Preferred Units (liquidation preference \$25 per unit), 2,100,000 shares issued and outstanding	52,500	52,500
Total Redeemable Operating Partnership Units	202,430	211,361
Equity:		
Common Units:		
General partner Common Units, 750,757 and 747,676 outstanding, respectively	10,044	10,485
Limited partner Common Units, 70,530,921 and 70,128,818 outstanding, respectively	994,610	1,038,328
Accumulated other comprehensive loss	(3,648)	(3,811)
Noncontrolling interests in consolidated affiliates	4,460	5,183
Total Equity	1,005,466	1,050,185
Total Liabilities, Redeemable Operating Partnership Units and Equity	\$ 2,870,671	\$ 2,885,738

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Income

(in thousands, except per unit amounts)

	Years Ended December 31,		
	2010	2009	2008
Rental and other revenues	\$ 463,321	\$ 450,154	\$ 445,268
Operating expenses:			
Rental property and other expenses	164,028	162,286	159,834
Depreciation and amortization	135,793	130,028	122,835
Impairment of assets held for use	—	2,554	3,407
General and administrative	33,308	37,208	38,187
Total operating expenses	333,129	332,076	324,263
Interest expense:			
Contractual	87,726	81,982	92,858
Amortization of deferred financing costs	3,385	2,760	2,716
Financing obligations	2,261	2,063	2,918
	93,372	86,805	98,492
Other income:			
Interest and other income	6,362	8,262	3,759
Gain/(loss) on debt extinguishment	(705)	1,287	—
	5,657	9,549	3,759
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	42,477	40,822	26,272
Gains on disposition of property	74	266	781
Gains on disposition of for-sale residential condominiums	276	922	5,617
Gains on disposition of investment in unconsolidated affiliates	25,330	—	—
Equity in earnings of unconsolidated affiliates	3,794	5,367	5,811
Income from continuing operations	71,951	47,377	38,481
Discontinued operations:			
Income/(loss) from discontinued operations	411	(7,203)	(21,483)
Net gains/(losses) on disposition of discontinued operations	(86)	21,466	18,485
	325	14,263	(2,998)
Net income	72,276	61,640	35,483
Net (income) attributable to noncontrolling interests in consolidated affiliates	(485)	(11)	(2,041)
Distributions on Preferred Units	(6,708)	(6,708)	(9,804)
Excess of Preferred Unit redemption/repurchase cost over carrying value	—	—	(108)
Net income available for common unitholders	\$ 65,083	\$ 54,921	\$ 23,530
Earnings per common unit – basic:			
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42
Income/(loss) from discontinued operations available for common unitholders	—	0.20	(0.05)
Net income available for common unitholders	\$ 0.87	\$ 0.77	\$ 0.37
Weighted average Common Units outstanding – basic	74,971	71,591	62,882
Earnings per common unit – diluted:			
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42
Income/(loss) from discontinued operations available for common unitholders	—	0.20	(0.05)
Net income available for common unitholders	\$ 0.87	\$ 0.77	\$ 0.37
Weighted average Common Units outstanding – diluted	75,169	71,670	63,083
Net income available for common unitholders:			
Income from continuing operations available for common unitholders	\$ 64,758	\$ 40,658	\$ 26,528
Income/(loss) from discontinued operations available for common unitholders	325	14,263	(2,998)
Net income available for common unitholders	\$ 65,083	\$ 54,921	\$ 23,530

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Capital

(in thousands, except unit amounts)

For the Years Ended December 31, 2010, 2009 and 2008

	Common Units		Accumulated Other Compre hensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total Partners' Capital
	General Partners' Capital	Limited Partners' C apital			
Balance at December 31, 2007	\$ 8,305	\$ 822,217	\$ (938)	\$ 6,803	\$ 836,387
Issuances of Common Units	2,163	214,145	—	—	216,308
Redemptions of Common Units	(33)	(3,260)	—	—	(3,293)
Distributions paid on Common Units	(1,063)	(105,199)	—	—	(106,262)
Distributions paid on Preferred Units	(98)	(9,706)	—	—	(9,804)
Share-based compensation expense	67	6,650	—	—	6,717
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	625	625
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(3,293)	(3,293)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	84	8,423	—	—	8,507
Net (income) attributable to noncontrolling interests in consolidated affiliates	(20)	(2,021)	—	2,041	—
Comprehensive income:					
Net income	354	35,129	—	—	35,483
Other comprehensive loss	—	—	(3,854)	—	(3,854)
Total comprehensive income					31,629
Balance at December 31, 2008	9,759	966,378	(4,792)	6,176	977,521
Issuances of Common Units	1,509	149,432	—	—	150,941
Distributions paid on Common Units	(1,206)	(119,360)	—	—	(120,566)
Distributions paid on Preferred Units	(67)	(6,641)	—	—	(6,708)
Share-based compensation expense	66	6,501	—	—	6,567
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(1,004)	(1,004)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(192)	(18,995)	—	—	(19,187)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	(11)	—	11	—
Comprehensive income:					
Net income	616	61,024	—	—	61,640
Other comprehensive income	—	—	981	—	981
Total comprehensive income					62,621
Balance at December 31, 2009	10,485	1,038,328	(3,811)	5,183	1,050,185
Issuances of Common Units	30	2,968	—	—	2,998
Distributions paid on Common Units	(1,274)	(126,143)	—	—	(127,417)
Distributions paid on Preferred Units	(67)	(6,641)	—	—	(6,708)
Share-based compensation expense	66	6,506	—	—	6,572
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(568)	(568)
Acquisition of noncontrolling interest in consolidated affiliate	1	139	—	(640)	(500)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	85	8,380	—	—	8,465
Net (income) attributable to noncontrolling interests in consolidated affiliates	(5)	(480)	—	485	—
Comprehensive income:					
Net income	723	71,553	—	—	72,276
Other comprehensive income	—	—	163	—	163
Total comprehensive income					72,439
Balance at December 31, 2010	<u>\$ 10,044</u>	<u>\$ 994,610</u>	<u>\$ (3,648)</u>	<u>\$ 4,460</u>	<u>\$ 1,005,466</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2010	2009	2008
Operating activities:			
Net income	\$ 72,276	\$ 61,640	\$ 35,483
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	136,158	131,883	127,620
Amortization of lease incentives	1,239	1,110	1,041
Share-based compensation expense	6,572	6,567	6,717
Additions to allowance for doubtful accounts	4,009	5,639	3,391
Amortization of deferred financing costs	3,385	2,760	2,716
Amortization of settled cash flow hedges	237	(249)	181
Impairment of assets held for use	—	13,518	32,846
(Gain)/loss on debt extinguishment	705	(1,287)	—
Net (gains)/losses on disposition of property	12	(21,732)	(19,266)
Gains on disposition of for-sale residential condominiums	(276)	(922)	(5,617)
Gains on disposition of investment in unconsolidated affiliates	(25,330)	—	—
Equity in earnings of unconsolidated affiliates	(3,794)	(5,367)	(5,811)
Changes in financing obligations	708	392	80
Distributions of earnings from unconsolidated affiliates	4,377	4,103	5,978
Changes in operating assets and liabilities:			
Accounts receivable	(3,290)	(2,819)	(3,362)
Prepaid expenses and other assets	370	(2,629)	(352)
Accrued straight-line rents receivable	(11,889)	(6,521)	(7,868)
Accounts payable, accrued expenses and other liabilities	5,012	2,962	(15,995)
Net cash provided by operating activities	<u>190,481</u>	<u>189,048</u>	<u>157,782</u>
Investing activities:			
Additions to real estate assets and deferred leasing costs	(102,717)	(151,482)	(231,422)
Net proceeds from disposition of real estate assets	6,801	77,288	64,858
Net proceeds from disposition of for-sale residential condominiums	4,952	12,196	27,140
Proceeds from disposition of investment in unconsolidated affiliates	15,000	—	—
Distributions of capital from unconsolidated affiliates	1,933	3,955	3,214
Repayments of mortgages and notes receivable	329	459	1,624
Contributions to unconsolidated affiliates	(2,875)	(952)	(12,741)
Changes in restricted cash and other investing activities	(1,576)	(3,288)	12,984
Net cash used in investing activities	<u>(78,153)</u>	<u>(61,824)</u>	<u>(134,343)</u>
Financing activities:			
Distributions on Common Units	(127,417)	(120,566)	(106,262)
Redemptions/repurchases of Preferred Stock	—	—	(52,499)
Dividends on Preferred Units	(6,708)	(6,708)	(9,804)
Distributions to noncontrolling interests in consolidated affiliates	(568)	(1,004)	(3,293)
Acquisition of noncontrolling interest in consolidated affiliate	(500)	—	—
Net proceeds from the issuance of Common Units	2,998	150,941	209,984
Redemptions of Common Units	—	—	(3,293)
Borrowings on revolving credit facility	37,500	128,000	462,183
Repayments on revolving credit facility	(7,500)	(291,000)	(526,983)
Borrowings on mortgages and notes payable	10,368	217,215	192,300
Repayments of mortgages and notes payable	(27,004)	(188,501)	(173,259)
Borrowings on financing obligations	—	4,184	—
Payments on financing obligations	(1,116)	(1,044)	(977)
Payments on debt extinguishment	(577)	—	—
Contributions from noncontrolling interests in consolidated affiliates	—	—	625
Additions to deferred financing costs	(1,125)	(8,871)	(1,656)
Net cash used in financing activities	<u>(121,649)</u>	<u>(117,354)</u>	<u>(12,934)</u>
Net increase/(decrease) in cash and cash equivalents	(9,321)	9,870	10,505
Cash and cash equivalents at beginning of the period	23,519	13,649	3,144
Cash and cash equivalents at end of the period	<u>\$ 14,198</u>	<u>\$ 23,519</u>	<u>\$ 13,649</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP**Consolidated Statements of Cash Flows - Continued**

(in thousands)

Supplemental disclosure of cash flow information:

	Years Ended December 31,		
	2010	2009	2008
Cash paid for interest, net of amounts capitalized	\$ 86,395	\$ 85,422	\$ 97,518

Supplemental disclosure of non-cash investing and financing activities:

	Years Ended December 31,		
	2010	2009	2008
Unrealized gains/(losses) on cash flow hedges	\$ —	\$ 937	\$ (1,376)
Conversion of Common Units to Common Stock	\$ 3,061	\$ 5,591	\$ 2,022
Changes in accrued capital expenditures	\$ (1,946)	\$ (19,098)	\$ (7,833)
Write-off of fully depreciated real estate assets	\$ 43,955	\$ 33,006	\$ 34,633
Write-off of fully amortized deferred financing and leasing costs	\$ 15,719	\$ 19,194	\$ 14,705
Unrealized gains/(losses) on marketable securities of non-qualified deferred compensation plan	\$ 382	\$ 1,497	\$ (2,177)
Settlement of financing obligation	\$ 4,184	\$ —	\$ —
Unrealized gain/(loss) on tax increment financing bond	\$ (177)	\$ 293	\$ (2,659)
Mortgages receivable from seller financing	\$ 17,030	\$ —	\$ —
Assumption of mortgages and notes payable	\$ 40,306	\$ —	\$ 8,348
Issuance of Common Units to acquire real estate assets	\$ —	\$ —	\$ 6,325

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the “Company”), is a fully-integrated, self-administered and self-managed equity real estate investment trust (“REIT”) that operates in the Southeastern and Midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”).

The Company is the sole general partner of the Operating Partnership. At December 31, 2010, the Company owned all of the Preferred Units and 71.3 million, or 95.0%, of the Common Units in the Operating Partnership. Limited partners, including one officer and two directors of the Company, own the remaining 3.8 million Common Units. In the event the Company issues shares of Common Stock, the proceeds of the issuance are contributed to the Operating Partnership in exchange for additional Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company’s Common Stock, \$.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During 2010, the Company redeemed 97,134 Common Units for a like number of shares of Common Stock. The redemptions increased the percentage of Common Units owned by the Company from 94.8% at December 31, 2009 to 95.0% at December 31, 2010.

At December 31, 2010, the Company and/or the Operating Partnership wholly owned: 295 in-service office, industrial and retail properties, comprising 27.2 million square feet; 96 rental residential units; 26 for-sale residential condominiums; 611 acres of undeveloped land suitable for future development, of which 523 acres are considered core holdings; and an additional two office properties that are considered completed but not yet stabilized. In addition, we owned interests (50.0% or less) in 35 in-service office and industrial properties, one office property under development and 11 acres of undeveloped land suitable for future development, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company’s Consolidated Financial Statements, but not included in the Operating Partnership’s Consolidated Financial Statements.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Our Consolidated Statements of Income for the years ended December 31, 2009 and 2008 were revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale which required discontinued operations presentation. Prior period amounts related to additions to allowance for doubtful accounts and amortization of lease commissions in our Consolidated Statements of Cash Flows have been reclassified to conform to the current period presentation.

The Consolidated Financial Statements include the wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. We consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership or in our capacity as general partner or managing member. Five of the 50.0% or less owned in-service office properties are consolidated. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At December 31, 2010, we had involvement with no entities that we deemed to be variable interest entities. All significant intercompany transactions and accounts have been eliminated.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years. Depreciation expense for real estate assets was \$117.6 million, \$115.6 million and \$111.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Expenditures directly related to the development and construction of real estate assets are included in net real estate assets and are stated at depreciated cost. Development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs on qualifying assets, real estate taxes, development personnel salaries and related costs and other costs incurred during the period of development. Interest and other carrying costs are capitalized until the building is ready for its intended use, but not later than one year from cessation of major construction activity. We consider a construction project as substantially completed and ready for its intended use upon the completion of tenant improvements. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction.

Expenditures directly related to the leasing of properties are included in deferred financing and leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties for new leases or lease renewals are capitalized. Internal leasing costs include primarily compensation, benefits and other costs, such as legal fees related to leasing activities, which are incurred in connection with successfully securing leases of properties. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases, which generally are from three to 10 years. Estimated costs related to unsuccessful activities are expensed as incurred.

We record liabilities for the performance of asset retirement activities when the obligation to perform such activities is unconditional, whether or not the timing or method of settlement of the obligation may be conditional on a future event.

Upon the acquisition of real estate assets, we assess the fair value of acquired tangible assets such as land, buildings and tenant improvements, intangible assets such as above and below market leases, acquired in-place leases, customer relationships and other identified intangible assets and assumed liabilities. We assess fair value based on estimated cash flow projections that utilize discount and/or capitalization rates as well as available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

The above and below market rate portions of leases acquired in connection with property acquisitions are recorded in deferred financing and leasing costs or in accounts payable, accrued expenses and other liabilities at their fair value. Fair value is calculated as the present value of the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) our estimate of fair market lease rates for each corresponding in-place lease, using a discount rate that reflects the risks associated with the leases acquired and measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases and the accrued below-market lease values are amortized as an increase to base rental revenue over the remaining term of the respective leases and any below market option periods.

In-place leases acquired are recorded at their fair value in deferred financing and leasing costs and are amortized to depreciation and amortization expense over the remaining term of the respective lease. The value of in-place leases is based on our evaluation of the specific characteristics of each customer's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions, the customer's credit quality and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider tenant improvements, leasing commissions and legal and other related expenses.

Real estate and other assets are classified as long-lived assets held for use and as long-lived assets held for sale. Real estate is classified as held for sale when the Company's Board of Directors, or its investment committee has approved the sale of the asset, a legally enforceable contract has been executed and the buyer's due diligence period has expired.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances (such as a significant decline in occupancy, identification of materially adverse legal or environmental factors, change in our designation of an asset to non-core which impacts the anticipated holding period or market value less than cost) indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis is generally performed at the property level, except when an asset is part of an interdependent group (e.g. office park) and consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated 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, costs to operate each property and expected ownership periods. For properties under development, the cash flows are based on expected service potential of the asset (group) when development is substantially complete. If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

We record assets held for sale (including for-sale residential condominiums) at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer, less costs to sell. The impairment loss, if any, is the amount by which the carrying amount exceeds the estimated fair value.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

We analyze our investments in unconsolidated affiliates for impairment. Such analysis consists of determining whether an expected loss in market value of an investment is other than temporary by evaluating the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investee, and our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value. As the factors used in this analysis are difficult to predict and are subject to future events that may alter our assumptions, we may be required to recognize future impairment losses on our investments in unconsolidated affiliates.

Sales of Real Estate

For sales transactions meeting the requirements for full profit recognition, the related assets and liabilities are removed from the balance sheet and the resultant gain or loss is recorded in the period the transaction closes. For sales transactions with continuing involvement after the sale, if the continuing involvement with the property is limited by the terms of the sales contract, profit is recognized at the time of sale and is reduced by the maximum exposure to loss related to the nature of the continuing involvement. Sales to entities in which we have or receive an interest are accounted for using partial sale accounting.

For transactions that do not meet the criteria for a sale, we evaluate the nature of the continuing involvement, including put and call provisions, if present, and account for the transaction as a financing arrangement, profit-sharing arrangement, leasing arrangement or other alternate method of accounting, rather than as a sale, based on the nature and extent of the continuing involvement. Some transactions may have numerous forms of continuing involvement. In those cases, we determine which method is most appropriate based on the substance of the transaction.

If we have an obligation to repurchase the property at a higher price or at a future indeterminable value (such as fair market value), or we guarantee the return of the buyer's investment or a return on that investment for an extended period, we account for such transaction as a financing arrangement. For transactions treated as financing arrangements, we record the amounts received from the buyer as a financing obligation and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are reflected as interest expense on the financing obligation. If the transaction includes an obligation or option to repurchase the asset at a higher price, additional interest is recorded to accrete the liability to the repurchase price. For options or obligations to repurchase the asset at fair market value at the end of each reporting period, the balance of the liability is adjusted to equal the then current fair value to the extent fair value exceeds the original financing obligation. The corresponding debit or credit is recorded to a related discount account and the revised discount is amortized over the expected term until termination of the option or obligation. If it is unlikely such option will be exercised, the transaction is accounted for under the deposit method or profit-sharing method. If we have an obligation or option to repurchase at a lower price, the transaction is accounted for as a leasing arrangement. At such time as a repurchase obligation expires, a sale is recorded and gain recognized.

If we retain an interest in the buyer and provide certain rent guarantees or other forms of support where the maximum exposure to loss exceeds the gain, we account for such transaction as a profit-sharing arrangement. For transactions treated as profit-sharing arrangements, we record a profit-sharing obligation for the amount of equity contributed by the other partner and continue to keep the property and related accounts recorded in our Consolidated Financial Statements. The results of operations of the property, net of expenses other than depreciation, are allocated to the other partner for its percentage interest and reflected as "co-venture expense" in our Consolidated Financial Statements. In future periods, a sale is recorded and profit is recognized when the remaining maximum exposure to loss is reduced below the amount of gain deferred.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Rental and Other Revenues

Minimum contractual rents from leases are 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. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue, such as percentage rent, is accrued when the contingency is removed. Termination fee income is recognized as revenue at the later of when the customer has vacated the space or the lease has expired and the following conditions are met: a fully executed lease termination agreement has been delivered; the amount of the fee is determinable; and collectability of the fee is reasonably assured. Rental revenue reductions related to co-tenancy lease provisions, if any, are accrued when events have occurred that trigger such provisions.

Property operating cost recoveries from customers are determined on a calendar year and lease-by-lease basis. The most common types of cost reimbursements in our leases are common area maintenance (“CAM”) and real estate taxes, for which the customer pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of a base year. The computation of property operating cost recovery income from customers is complex and involves numerous judgments, including the interpretation of terms and other customer lease provisions. Leases are not uniform in dealing with such cost reimbursements and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected with respect to the cost reimbursements. After the end of the calendar year, we compute each customer’s final cost reimbursements and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Allowance for Doubtful Accounts

Accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and adjust the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of receivables prove incorrect, we could experience losses in excess of our allowance for doubtful accounts. The allowance and its related receivable are written-off when we have concluded there is a low probability of collection.

Discontinued Operations

Properties that are sold or classified as held for sale are classified as discontinued operations provided that (1) the operations and cash flows of the property will be eliminated from our ongoing operations and (2) we will not have any significant continuing involvement in the operations of the property after it is sold. Interest expense is included in discontinued operations if the related loan securing the sold property is to be paid off or assumed by the buyer in connection with the sale. If the property is sold to a joint venture in which we retain an interest, the property will not be accounted for as a discontinued operation due to our significant ongoing interest in the operations through our joint venture interest. If we are retained to provide property management, leasing and/or other services for the property owner after the sale, the property generally will be accounted for as a discontinued operation because the expected cash flows related to our management and leasing activities generally will not be significant in comparison to the cash flows from the property prior to sale.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Lease Incentives

Lease incentive costs, which are payments made to or on behalf of a customer as an incentive to sign the lease, are capitalized in deferred financing and leasing costs and amortized on a straight-line basis over the respective lease terms as a reduction of rental revenues.

For-Sale Residential Condominiums

For-sale residential condominiums include completed, but unsold, condominium inventory. We initially record receipts of earnest money deposits in accounts payable, accrued expenses and other liabilities in accordance with the deposit method. We then record completed sales when units close and the remaining net cash is received. During the years ended December 31, 2010, 2009 and 2008, we received \$5.3 million, \$13.0 million and \$28.6 million, respectively, in gross proceeds and recorded \$5.0 million, \$12.1 million and \$23.0 million, respectively, of cost of assets sold from condominium sales.

Investments in Unconsolidated Affiliates

We account for our investments in less than majority owned joint ventures, partnerships and limited liability companies using the equity method of accounting when our interests represent a general partnership interest but substantive participating rights or substantive kick out rights have been granted to the limited partners or when our interests do not represent a general partnership interest and we do not control the major operating and financial policies of the entity. These investments are initially recorded at cost, as investments in unconsolidated affiliates, and are subsequently adjusted for our share of earnings and cash contributions and distributions. To the extent our cost basis at formation of the joint venture is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related assets and included in our share of equity in earnings of unconsolidated affiliates.

Additionally, our joint ventures will frequently borrow funds on their own behalf to finance the acquisition of, and/or leverage the return upon, the properties being acquired by the joint ventures or to build or acquire additional buildings. Such borrowings are typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment. In most cases, we and/or our joint venture partners are required to agree to customary limited exceptions on non-recourse loans.

Cash Equivalents

We consider highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash represents cash deposits that are legally restricted or held by third parties on our behalf. It includes security deposits from sales contracts on for-sale residential condominiums, construction-related escrows, property disposition proceeds set aside and designated or intended to fund future tax-deferred exchanges of qualifying real estate investments, escrows and reserves for debt service, real estate taxes and property insurance established pursuant to certain mortgage financing arrangements, and deposits given to lenders to unencumber secured properties, if any.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Redeemable Common Units and Preferred Units

Limited partners holding Common Units other than the Company (“Redeemable Common Units”) have the right to put any and all of the Common Units to the Operating Partnership and the Company has the right to put any and all of the Preferred Units to the Operating Partnership in exchange for their liquidation preference plus accrued and unpaid distributions in the event of a corresponding redemption by the Company of the underlying Preferred Stock. Consequently, these Redeemable Common Units and Preferred Units are classified outside of permanent partners’ capital in the accompanying balance sheet. The recorded value of the Redeemable Common Units is based on fair value at the balance sheet date as measured by the closing price of Common Stock on that date multiplied by the total number of Redeemable Common Units outstanding. The recorded value of the Preferred Units is based on their redemption value.

Income Taxes

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 (the “Code”). A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, the Company is required to pay dividends to its stockholders equal to at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to pay economically equivalent distributions on outstanding Common Units at the same time that the Company pays dividends on its outstanding Common Stock.

Other than income taxes related to its taxable REIT subsidiary, the Operating Partnership does not reflect any federal income taxes in its financial statements, since as a partnership the taxable effects of its operations are attributed to its partners. The Operating Partnership does record state income tax for states that tax partnership income directly.

Concentration of Credit Risk

We perform ongoing credit evaluations of our customers. At December 31, 2010, the wholly owned properties, defined as in-service properties (excluding rental residential units) to which we have title and 100.0% ownership rights (“Wholly Owned Properties”), were leased to 1,614 customers in nine primary geographic locations. The geographic locations that comprise greater than 10.0% of our annualized cash rental revenue are Raleigh, NC, Tampa, FL, Atlanta, GA, Nashville, TN and Kansas City, MO. Our customers engage in a wide variety of businesses. No single customer of the Wholly Owned Properties generated more than 10.0% of our consolidated revenues during 2010.

We maintain our cash and cash equivalents and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution may exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Additionally, from time to time in connection with tax-deferred 1031 transactions, our restricted cash balances may be commingled with other funds being held by any such intermediary institution which subjects our balance to the credit risk of the institution.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Derivative Financial Instruments

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear 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 although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock and similar agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

Our objective in using interest rate hedge contracts is to add stability to interest expense and manage our exposure to interest rate fluctuations. To accomplish this objective, we sometimes use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into interest expense in the period that the hedged forecasted transaction affects earnings. We do not hold these derivative contracts for trading or speculative purposes and generally do not have any derivatives that are not designated as hedges. Interest rate hedge contracts typically contain a provision whereby if we default on any of our indebtedness, we could also be declared in default on our hedge contracts.

We are exposed to certain losses in the event of nonperformance by the counterparty under any outstanding hedge contracts. We expect the counterparty, which generally is a major financial institution, to perform fully under any such contracts. However, if any counterparty were to default on its obligation under an interest rate hedge contract, we could be required to pay the full rates on our debt, even if such rates were in excess of the rate in the contract.

We account for terminated derivative instruments by recognizing the related accumulated comprehensive income/loss balance in current earnings, unless the hedged forecasted transaction continues as originally planned, in which case we continue to amortize the accumulated comprehensive income/loss into earnings over the originally designated hedge period.

Earnings Per Unit

Basic earnings per unit is computed by dividing net income available for common unitholders by the weighted Common Units outstanding - basic. Diluted earnings per unit is computed by dividing net income available to common unitholders by the weighted Common Units outstanding – basic plus the dilutive effect of options and warrants, using the treasury stock method. Weighted Common Units outstanding – basic include all of the Company's unvested restricted stock since dividends received on such restricted stock are non-forfeitable.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

2. REAL ESTATE ASSETS

Acquisitions

In the third quarter of 2010, we acquired a 336,000 square foot office property in Memphis, TN for \$10.0 million in cash and the assumption of \$42.6 million of 6.43% effective rate secured debt, which was recorded at fair value of \$40.3 million and incurred \$0.4 million of acquisition-related costs. In the fourth quarter of 2010, we acquired a 117,000 square foot office property and 32.6 acres of development land in Tampa, FL for \$12.0 million in cash and incurred \$0.2 million of acquisition-related costs. At the time of acquisition, the office building was vacant. Also, we acquired our partner's interest in a joint venture that owned for-sale residential condominiums for \$0.5 million in cash.

In 2009, we acquired a 220,000 square foot office building in Tampa, FL for \$22.3 million in cash and incurred \$0.1 million of acquisition-related costs.

In 2008, we acquired a 135,000 square foot office building in Memphis, TN in exchange for 183,587 Common Units and the assumption of \$7.8 million of 8.15% effective rate secured debt, which were recorded at fair value of \$6.3 million and \$8.4 million, respectively.

Dispositions

During the second quarter of 2010, we sold seven office properties in Winston Salem, NC for gross proceeds of \$12.9 million. In connection with this disposition, we received cash of \$4.5 million and provided seller financing of \$8.4 million (recorded at fair value of \$8.4 million in mortgages and notes receivable) and committed to lend up to an additional \$1.7 million for tenant improvements and lease commissions, of which \$0.2 million was funded as of December 31, 2010. The three-year, interest-only first mortgage carries a 6.0% average interest rate. Assuming no default exists, the note can be extended by the buyer for two additional one-year periods, subject to an increase in the interest rate to 7.0% in the fourth year and to 8.0% in the fifth year. We have accounted for this disposition using the installment method, whereby the \$0.4 million gain on disposition of property has been deferred and will be recognized when the seller financing is repaid.

During the second quarter of 2010, we also sold six industrial properties in Greensboro, NC for gross proceeds of \$12.0 million. In connection with this disposition, we received cash of \$3.4 million and provided seller financing of \$8.6 million (recorded at fair value of \$8.6 million in mortgages and notes receivable) and a limited rent guarantee with maximum exposure to loss of \$0.7 million as of December 31, 2010. The three-year, interest-only first mortgage carries a 6.25% average interest rate. Assuming no default exists, the note can be extended by the buyer for two additional one-year periods, subject to an increase in the interest rate to 7.0% in the fourth year and to 7.75% in the fifth year. We currently have concluded that a loss from the rent guarantee is not probable. We have accounted for this disposition using the installment method, whereby the \$0.3 million impairment was recognized in net gains/(losses) on disposition of discontinued operations in the second quarter of 2010.

During the first quarter of 2010, we recorded a completed sale in connection with the disposition of an office property in Raleigh, NC in the fourth quarter of 2009 where the buyer's limited right to compel us to repurchase the property expired. Accordingly, we recognized the \$0.2 million gain on disposition of property in the first quarter of 2010.

In 2009, we sold 517,000 square feet of non-core retail and office properties for gross proceeds of \$78.2 million and recorded gains of \$21.7 million.

In 2008, we sold 744,000 square feet of office and industrial properties for gross proceeds of approximately \$56.8 million and recorded net gains of \$17.9 million. We also sold 38 acres of non-core land for gross sale proceeds of \$9.2 million and recorded a net gain of \$0.3 million.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

2. REAL ESTATE ASSETS - Continued

Impairments

We recorded impairment of assets held for use of \$2.6 million and \$3.4 million in 2009 and 2008, respectively, on four office properties located in Winston-Salem, NC. Additionally, we recorded impairment of \$11.0 million and \$29.4 million in 2009 and 2008, respectively, on certain office, industrial and retail properties in Winston-Salem and Greensboro, NC that were sold in 2010 and required discontinued operations presentation. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future (see Note 1).

Development

As of December 31, 2010, we had one office property aggregating 60,000 square feet which was reflected as development in process due to ongoing redevelopment activities. The project is 100.0% leased.

3. MORTGAGES AND NOTES RECEIVABLE

The following table sets forth our mortgages and notes receivable:

	December 31,	
	2010	2009
Seller financing (first mortgages)	\$ 17,180	\$ —
Less allowance	—	—
	<u>17,180</u>	<u>—</u>
Promissory notes	2,732	3,841
Less allowance	(868)	(698)
	<u>1,864</u>	<u>3,143</u>
Mortgages and notes receivable, net	<u>\$ 19,044</u>	<u>\$ 3,143</u>

The following table sets forth our notes receivable allowance, which relates only to promissory notes:

	December 31,	
	2010	2009
Beginning notes receivable allowance	\$ 698	\$ 459
Bad debt expense	413	255
Recoveries/write-offs/other	(243)	(16)
Total notes receivable allowance	<u>\$ 868</u>	<u>\$ 698</u>

Our mortgages and notes receivable consists primarily of seller financing issued in conjunction with two disposition transactions in 2010 (see Note 2). This seller financing is evidenced by first mortgages secured by the assignment of rents and the underlying real estate assets. We conclude on the credit quality of the receivables by monitoring the leasing statistics and market fundamentals of these assets. As of December 31, 2010, the interest payments on both mortgages receivable were current and there were no indications of impairment on the receivables. We may be required to take impairment charges in the future if and to the extent the underlying collateral diminishes in value.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

4. INVESTMENTS IN AFFILIATES

Unconsolidated Affiliates

We have retained equity interests ranging from 10.0% to 50.0% in various joint ventures with unrelated investors. We account for these unconsolidated affiliates using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Financial Statements.

The following table sets forth our ownership in unconsolidated affiliates at December 31, 2010:

Joint Venture	Location of Properties	Ownership Interest
Concourse Center Associates, LLC	Greensboro, NC	50.00%
Plaza Colonnade, LLC	Kansas City, MO	50.00%
Board of Trade Investment Company	Kansas City, MO	49.00%
Highwoods DLF 97/26 DLF 99/32, LP	Atlanta, GA; Greensboro, NC; Orlando, FL	42.93%
Highwoods KC Glenridge Office, LLC	Atlanta, GA	40.00%
Highwoods KC Glenridge Land, LLC	Atlanta, GA	40.00%
HIW-KC Orlando, LLC	Orlando, FL	40.00%
Kessinger/Hunter, LLC	Kansas City, MO	26.50%
Highwoods DLF Forum, LLC	Raleigh, NC	25.00%
Highwoods DLF 98/29, LLC	Atlanta, GA; Charlotte, NC; Greensboro, NC; Raleigh, NC; Orlando, FL	22.81%
HIW Development B, LLC	Charlotte, NC	10.00%

The following table sets forth combined summarized financial information for our unconsolidated affiliates:

	December 31,	
	2010	2009
Balance Sheets:		
Assets:		
Real estate assets, net	\$ 567,867	\$ 669,657
All other assets, net	90,323	116,097
Total Assets	<u>\$ 658,190</u>	<u>\$ 785,754</u>
Liabilities and Partners' or Shareholders' Equity:		
Mortgages and notes payable (1)	\$ 414,265	\$ 582,460
All other liabilities	25,858	32,447
Partners' or shareholders' equity	218,067	170,847
Total Liabilities and Partners' or Shareholders' Equity	<u>\$ 658,190</u>	<u>\$ 785,754</u>
Our share of historical partners' or shareholders' equity (2)	\$ 60,581	\$ 34,133
Net excess of cost of investments over the net book value of underlying net assets (2) (3)	1,870	18,352
Carrying value of investments in unconsolidated affiliates (2)	<u>\$ 62,451</u>	<u>\$ 52,485</u>
Our share of unconsolidated non-recourse mortgage debt (1)	<u>\$ 149,379</u>	<u>\$ 237,102</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

4. INVESTMENTS IN AFFILIATES— Continued

- (1) Our share of scheduled future principal payments, including amortization, due on mortgages and notes payable at December 31, 2010 is as follows:

2011	\$ 2,870
2012	22,747
2013	24,778
2014 (a)	64,297
2015	951
Thereafter	33,736
	<u>\$ 149,379</u>

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.

- (a) Includes our 22.81% portion of a \$38.7 million mortgage payable which is callable at the lender's sole discretion on either of the following call dates: May 1, 2014, 2019 or 2024, by giving written notice at least six months prior to the elected call date.
- (2) During the third quarter of 2006, three of our Des Moines joint ventures made cash distributions aggregating \$17.0 million in connection with a debt refinancing. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. We recorded the distributions as a reduction of our investment account and included the resulting negative investment balances of \$12.4 million in accounts payable, accrued expenses and other liabilities at December 31, 2009. Our interests in these joint ventures were sold in the second quarter of 2010.
- (3) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the joint venture level, which is typically depreciated over the life of the related asset.

	Years Ended December 31,		
	2010	2009	2008
Income Statements:			
Rental and other revenues	\$ 115,826	\$ 145,143	\$ 156,482
Expenses:			
Rental property and other expenses	54,695	70,197	77,221
Depreciation and amortization	29,945	33,821	33,096
Interest expense	27,187	34,405	35,204
Total expenses	111,827	138,423	145,521
Income before disposition of properties	3,999	6,720	10,961
Gains on disposition of properties	—	2,963	—
Net income	<u>\$ 3,999</u>	<u>\$ 9,683</u>	<u>\$ 10,961</u>
Our share of:			
Depreciation and amortization of real estate assets	\$ 10,318	\$ 11,877	\$ 12,582
Interest expense	\$ 10,449	\$ 13,969	\$ 14,473
Net gain on disposition of depreciable properties	\$ —	\$ 582	\$ —
Net income	<u>\$ 1,483</u>	<u>\$ 2,852</u>	<u>\$ 3,680</u>
Our share of net income	\$ 1,483	\$ 2,852	\$ 3,680
Purchase accounting and management, leasing and other fees adjustments	2,311	2,515	2,131
Equity in earnings of unconsolidated affiliates	<u>\$ 3,794</u>	<u>\$ 5,367</u>	<u>\$ 5,811</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

4. INVESTMENTS IN AFFILIATES— Continued

The following summarizes additional information related to certain of our unconsolidated affiliates:

- Highwoods DLF 97/26 DLF 99/32, L.P. (“DLF II”)

In 2009, DLF II sold one property for gross proceeds of \$7.1 million and recorded an impairment charge of \$0.5 million. We recorded \$0.2 million as our proportionate share of this impairment charge through equity in earnings of unconsolidated affiliates in 2009.

- Kessinger/Hunter, LLC

Kessinger/Hunter, LLC, which is managed by our joint venture partner, previously provided property management, leasing, brokerage and certain construction related services to certain of our Wholly Owned Properties in Kansas City, MO. These services were reduced by us to only leasing-related services in 2009. Kessinger/Hunter, LLC received \$0.8 million, \$0.5 million and \$2.6 million from us for these services in 2010, 2009 and 2008, respectively.

- Highwoods-DLF Forum, LLC (“DLF Forum”)

In 2008, we contributed \$12.3 million to this joint venture for a 25% ownership interest. The joint venture acquired a 635,000 square foot office park in Raleigh, NC, for approximately \$113 million and obtained a \$67.5 million loan secured by the property.

- Highwoods DLF 98/29, LLC (“DLF I”)

At the formation of this joint venture in 1999, our partner contributed excess cash to the venture that was distributed to us under the joint venture agreements. We are required to repay this excess cash to our partner over time, as discussed in Note 9.

In 2009, DLF I sold a property for gross proceeds of \$14.8 million and recorded a gain of \$3.4 million. We recorded \$0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in 2009.

- HIW Development B, LLC

In 2009, we contributed \$0.3 million to this joint venture for a 10% ownership interest. Simultaneous with the formation, this joint venture acquired land for \$3.4 million to be used for development in Charlotte, NC. In 2010, we contributed an additional \$1.0 million to this joint venture for the purpose of constructing a build-to-suit office property expected to cost \$46.5 million when completed in 2011. We receive customary development fees for this construction.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

4. INVESTMENTS IN AFFILIATES— Continued

- Des Moines, IA Joint Ventures

During the second quarter of 2010, we sold our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA. The assets in the joint ventures included 1.7 million square feet of office, 788,000 square feet of industrial and 45,000 square feet of retail properties, as well as 418 apartment units. In connection with the closing, we received \$15.0 million in cash. We had a negative book basis in certain of the joint ventures, primarily as a result of prior cash distributions to the partners. Accordingly, we recorded gain on disposition of investment in unconsolidated affiliates of \$25.3 million in the second quarter of 2010. As of the closing date, the joint ventures had approximately \$170 million of secured debt, which was non-recourse to us except (1) in the case of customary exceptions pertaining to matters such as misuse of funds, borrower bankruptcy, unpermitted transfers, environmental conditions and material misrepresentations and (2) approximately \$9.0 million of direct and indirect guarantees. We have been released by the applicable lenders from all such direct and indirect guarantees and we have no ongoing lender liability relating to such customary exceptions to non-recourse liability with respect to most, but not all, of the debt. The buyer has agreed to indemnify and hold us harmless from any and all future losses that we suffer as a result of our prior investment in the joint ventures (other than losses directly resulting from our acts or omissions). In the event we are exposed to any such future loss, our financial condition and operating results would not be adversely affected unless the buyer defaults on its indemnification obligation.

- Other Activities

We receive development, management and leasing fees for services provided to certain of our joint ventures. These fees are recognized as income to the extent of our respective joint venture partner's interest in rental and other revenues. In the years ended December 31, 2010, 2009 and 2008, we recognized \$2.7 million, \$2.1 million and \$2.1 million, respectively, of development, management and leasing fees from our unconsolidated joint ventures.

Consolidated Affiliates

The following summarizes our consolidated affiliates:

- Highwoods-Markel Associates, LLC ("Markel")

We have a 50.0% ownership interest in Markel. We are the manager and leasing agent for Markel's properties located in Richmond, VA and receive customary management and leasing fees. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. The organizational documents of Markel require the entity to be liquidated through the sale of its assets upon reaching December 31, 2100. As controlling partner, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the noncontrolling interest partner in these partially owned properties only if the net proceeds received by the entity from the sale of our assets warrant a distribution as determined by the agreement. We estimate the value of noncontrolling interest distributions would have been approximately \$13.9 million had the entity been liquidated at December 31, 2010. This estimated settlement value is based on the fair value of the underlying properties which is 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. If the entity's underlying assets are worth less than the underlying liabilities on the date of such liquidation, we would have no obligation to remit any consideration to the noncontrolling interest holder.

- SF-HIW Harborview Plaza, LP ("Harborview")

We have a 20.0% interest in Harborview. We are the manager and leasing agent for Harborview's property located in Tampa, FL and receive customary management and leasing fees. As further described in Note 8, we account for this joint venture as a financing obligation since our partner has the right to put its interest back to us in the future.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

4. INVESTMENTS IN AFFILIATES— Continued

- Plaza Residential, LLC (“Plaza Residential”)

In 2007, through our taxable REIT subsidiary, we contributed \$10.6 million for a majority owned interest in Plaza Residential, which was formed to develop and sell 139 for-sale residential condominiums constructed above an office property developed by us in Raleigh, NC. Our partner had a 7.0% ownership interest in the joint venture, performed development services for the joint venture for a market development fee and guaranteed 40.0% of the construction financing. As of December 31, 2009, we consolidated this joint venture since we own the majority interest. On December 30, 2010, we acquired our partner’s interest for \$0.5 million.

5. DEFERRED FINANCING AND LEASING COSTS

The following table sets forth total deferred financing and leasing costs, net of accumulated amortization. Lease intangible assets include lease commissions and above market and in-place lease intangible assets arising from purchase accounting.

	December 31,	
	2010	2009
Deferred financing costs	\$ 16,412	\$ 16,811
Less accumulated amortization	(7,054)	(4,549)
	9,358	12,262
Deferred leasing costs (including lease intangible assets and lease incentives)	128,030	108,835
Less accumulated amortization	(52,329)	(47,580)
	75,701	61,255
Deferred financing and leasing costs, net	\$ 85,059	\$ 73,517

Amortization of deferred financing and leasing costs were as follows:

	Years Ended December 31,		
	2010	2009	2008
Amortization of deferred financing costs	\$ 3,385	\$ 2,760	\$ 2,716
Amortization of lease intangible assets (included in depreciation and amortization)	\$ 17,383	\$ 15,064	\$ 15,320
Amortization of lease incentives (included in rental and other revenues)	\$ 1,239	\$ 1,110	\$ 1,041

The following table sets forth scheduled future amortization for deferred financing and leasing costs as of December 31, 2010:

Years Ending December 31,	Amortization of Deferred Financing Costs	Amortization of Lease Intangible Assets	Amortization of Lease Incentives
2011	\$ 3,014	\$ 17,168	\$ 1,038
2012	2,786	14,291	938
2013	1,168	11,233	775
2014	791	8,545	617
2015	791	6,097	408
Thereafter	808	13,201	1,390
	\$ 9,358	\$ 70,535	\$ 5,166

The weighted average remaining amortization periods for deferred financing costs, lease intangible assets and lease incentives were 3.4 years, 6.2 years and 7.9 years, respectively, as of December 31, 2010.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

5. DEFERRED FINANCING AND LEASING COSTS - Continued

In connection with the acquisition of an office property in Memphis, TN in the third quarter of 2010, we recorded \$2.8 million of above market lease intangible assets and \$7.1 million of in-place lease intangible assets with weighted average amortization periods at the time of the acquisition of 7.3 and 5.9 years, respectively.

6. MORTGAGES AND NOTES PAYABLE

Our mortgages and notes payable consist of the following:

	December 31,	
	2010	2009
Secured indebtedness: (1)		
7.05% mortgage loan due 2012	\$ 186,038	\$ 188,088
6.03% mortgage loan due 2013	128,084	130,739
5.68% mortgage loan due 2013	113,230	115,958
5.17% (6.43% effective rate) mortgage loan due 2015 (2)	40,199	—
6.88% mortgage loans due 2016	113,386	114,610
7.50% mortgage loan due 2016	46,662	47,108
5.74% to 9.00% mortgage loans due between 2012 and 2016 (3) (4) (5)	74,691	82,483
Variable rate construction loan due 2010 (6)	52,109	41,741
	<u>754,399</u>	<u>720,727</u>
Unsecured indebtedness:		
5.85% (5.88% effective rate) notes due 2017 (7)	391,046	390,928
7.50% notes due 2018	200,000	200,000
Variable rate term loans due between 2011 and 2012 (8)	147,500	157,500
Revolving credit facility due 2013 (9)	30,000	—
	<u>768,546</u>	<u>748,428</u>
Total	<u>\$ 1,522,945</u>	<u>\$ 1,469,155</u>

-
- (1) The mortgage loans payable are secured by real estate assets with an aggregate undepreciated book value of approximately \$1.2 billion at December 31, 2010. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term or are prepayable subject to certain conditions including prepayment penalties.
- (2) Net of amortized fair market value discount of \$2.1 million as of December 31, 2010.
- (3) Includes mortgage debt related to SF-HIW Harborview Plaza, LP., a consolidated 20.0% owned joint venture, of \$21.5 million and \$21.9 million at December 31, 2010 and 2009, respectively. See Note 8.
- (4) Includes mortgage debt related to Markel, a consolidated 50.0% owned joint venture, of \$35.0 million and \$35.8 million at December 31, 2010 and 2009, respectively. See Note 10.
- (5) Net of amortized fair market value premium of \$0.4 million at both December 31, 2010 and 2009.
- (6) Maturity date does not reflect a one-year extension option available to us, except in the event of default, related to the \$52.1 million outstanding on our \$70.0 million secured construction facility. The interest rate is 1.12% at December 31, 2010.
- (7) Net of amortized original issuance discount of \$0.8 million and \$0.9 million at December 31, 2010 and 2009, respectively.
- (8) The interest rates are 3.90% and 1.36% on our \$10.0 million and \$137.5 million term loans, respectively, as of December 31, 2010.
- (9) The interest rate is 3.16% on our revolving credit facility at December 31, 2010.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

6. MORTGAGES AND NOTES PAYABLE - Continued

The following table sets forth scheduled future principal payments, including amortization, due on our mortgages and notes payable at December 31, 2010:

Years Ending December 31,	Principal Amount
2011 (1)	\$ 201,375
2012	224,649
2013	272,922
2014	34,841
2015	42,005
Thereafter	747,153
	<u>\$ 1,522,945</u>

- (1) This amount does not reflect a one-year extension option available to us, except in the event of default, related to amounts outstanding under our \$70.0 million secured construction facility.

Our \$400.0 million unsecured revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional \$50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There was \$30.0 million and \$20.0 million outstanding under our revolving credit facility at December 31, 2010 and February 2, 2011, respectively. At both December 31, 2010 and February 2, 2011, we had \$0.5 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2010 and February 2, 2011 was \$369.5 million and \$379.5 million, respectively.

Our \$70.0 million secured construction facility, of which \$52.1 million was outstanding at December 31, 2010, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points. This facility had \$17.9 million of availability at December 31, 2010 and February 2, 2011.

In 2010, we repaid \$10.0 million of our \$20.0 million, three-year unsecured term loan. Additionally, we repaid the \$5.8 million remaining balance then outstanding on the mortgage payable secured by our 96 rental residential units to unencumber these assets for a planned development project. We incurred a penalty of \$0.6 million related to this early repayment, which is included in loss on debt extinguishment in 2010.

In 2009, we paid off at maturity \$50.0 million of 8.125% unsecured notes and retired the remaining \$107.2 million principal amount of a two-tranched secured loan. We also obtained a \$20.0 million, three-year unsecured term loan bearing interest of 3.90%, a \$115.0 million, six and a half-year secured loan bearing interest of 6.88% and a \$47.3 million, seven-year secured loan bearing interest of 7.50%. We also repurchased \$8.2 million principal amount of unsecured notes due 2017 and obtained a new \$400.0 million unsecured revolving credit facility which replaced the then existing credit facility, as discussed previously.

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per unit data)****6. MORTGAGES AND NOTES PAYABLE - Continued**

In 2008, we obtained a \$137.5 million, three-year unsecured term loan bearing interest of LIBOR plus 110 basis points. We used a portion of the proceeds to pay off at maturity \$100.0 million of 7.125% unsecured notes.

We are currently in compliance with the debt covenants and other requirements with respect to our outstanding debt.

Our revolving credit facility, bank term loan due in February 2011 (\$137.5 million outstanding as of December 31, 2010) and bank term loan due in March 2012 (\$10.0 million outstanding as of December 31, 2010) require us to comply with customary operating covenants and various financial requirements. If we were to fail to make a payment when due with respect to any of our other obligations with aggregate unpaid principal of \$10.0 million, and such failure remains uncured for more than 120 days, the lenders under our credit facility could provide notice of their intent to accelerate all amounts due thereunder. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has \$391.0 million carrying amount of 2017 bonds outstanding and \$200.0 million carrying amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Other Information

Total interest capitalized to development projects was \$1.4 million, \$4.6 million and \$8.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

7. DERIVATIVE FINANCIAL INSTRUMENTS

We had no outstanding interest rate hedge contracts at December 31, 2010 or 2009.

The following table sets forth the effect of our prior cash flow hedges on AOCL and interest expense:

	Years Ended December 31,		
	2010	2009	2008
Derivatives Designated as Cash Flow Hedges:			
Amount of unrealized gain/(loss) recognized in AOCL on derivatives (effective portion):			
Interest rate swaps	\$ —	\$ 937	\$ (1,376)
Amount of loss/(gain) reclassified out of AOCL into interest expense (effective portion) :			
Interest rate swaps	\$ 237	\$ (249)	\$ 181

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

7. DERIVATIVE FINANCIAL INSTRUMENTS - continued

The following table sets forth the effect of our prior derivatives not designated as hedging instruments on interest expense:

	Years Ended December 31,		
	2010	2009	2008
Derivatives Not Designated as Hedging Instruments:			
Amount of gain/(loss) recognized in interest expense on derivative:			
Interest rate swaps	\$ —	\$ —	\$ 183

8. FINANCING ARRANGEMENTS

Our financing obligations consist of the following:

	December 31,	
	2010	2009
SF-HIW Harborview, LP financing obligation	\$ 17,616	\$ 16,957
Tax increment financing bond	14,258	15,374
Repurchase obligation	—	4,184
Capitalized ground lease obligation	1,240	1,191
Total	\$ 33,114	\$ 37,706

Harborview

Our joint venture partner in Harborview has the right to put its 80.0% equity interest in the joint venture to us in exchange for cash at any time during the one-year period commencing September 11, 2014. The value of the 80.0% equity interest will be determined at the time that our partner elects to exercise its put right, if ever, based upon the then fair market value of Harborview LP's assets and liabilities, less 3.0%, which amount was intended to cover the normal costs of a sale transaction. Because of the put option, this transaction is accounted for as a financing transaction. Accordingly, the assets, liabilities and operations related to Harborview Plaza, the property owned by Harborview LP remain in our Consolidated Financial Statements.

As a result, we established a financing obligation equal to the \$12.7 million net equity contributed by the other partner. At the end of each reporting period, the balance of the gross financing obligation is adjusted to equal the greater of the original financing obligation of \$12.7 million or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was \$10.2 million and \$12.2 million at December 31, 2010 and 2009, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

8. FINANCING ARRANGEMENTS - Continued

Tax Increment Financing Bond

In connection with tax increment financing for construction of a public garage related to a wholly owned office building, we are obligated to pay fixed special assessments over a 20-year period ending in 2019. The net present value of these assessments, discounted at 6.93% at the inception of the obligation, which represents the interest rate on the underlying bond financing, is recorded as a financing obligation. We receive special tax revenues and property tax rebates recorded in interest and other income, which are intended, but not guaranteed, to provide funds to pay the special assessments. We acquired the underlying bond in a privately negotiated transaction in 2007 (see Note 11).

Repurchase Obligation

In connection with a disposition in 2009 of a building located in Raleigh, NC, the buyer had a limited right to put the building to us in exchange for the sales price plus certain costs if we had been unable to satisfy a certain post-closing requirement by March 1, 2010. Accordingly, the assets, liabilities and operations of the building remained in our Consolidated Financial Statements during this contingency period. We satisfied this post-closing requirement in the first quarter of 2010 and accordingly, met the requirements to record a completed sale in the first quarter of 2010.

Capitalized Ground Lease Obligation

The capitalized ground lease obligation represents an obligation to the lessor of land on which we constructed a building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated at the inception of the lease using a discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes into interest expense each month for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

9. COMMITMENTS AND CONTINGENCIES

Operating Ground Leases

Certain Wholly Owned Properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the consumer price index or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was \$1.5 million, \$1.6 million and \$1.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

9. COMMITMENTS AND CONTINGENCIES - Continued

The following table sets forth our scheduled obligations for future minimum payments on operating ground leases at December 31, 2010:

2011	\$ 1,129
2012	1,150
2013	1,171
2014	1,193
2015	1,217
Thereafter	29,897
	<u>\$ 35,757</u>

Completion Contracts

We have approximately \$8.6 million of completion contracts at December 31, 2010. Completion contracts relate to payments to be made under current contracts for various development/construction projects, which we expect to pay in 2011.

Environmental Matters

Substantially all of our in-service and development properties have been subjected to Phase I environmental assessments and, in certain instances, Phase II environmental assessments. Such assessments and/or updates have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our Consolidated Financial Statements.

DLF I Obligation

At the formation of DLF I, the amount our partner contributed in cash to the venture and subsequently distributed to us was determined to be \$7.2 million in excess of the amount required based on its ownership interest and the agreed-upon value of the real estate assets. We are required to repay this amount over 14 years, beginning in the first quarter of 1999. The \$7.2 million was discounted to net present value of \$3.8 million using a discount rate of 9.62% specified in the agreement. Payments of \$0.6 million were made in each of the years ended December 31, 2010, 2009 and 2008. The balance at December 31, 2010 and 2009 is \$1.2 million and \$1.6 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

Litigation, Claims and Assessments

We are from time to time a party to a variety of legal proceedings, claims and assessments arising in the ordinary course of our business. We regularly assess the liabilities and contingencies in connection with these matters based on the latest information available. For those matters where it is probable that we have incurred or will incur a loss and the loss or range of loss can be reasonably estimated, the estimated loss is accrued and charged to income in our Consolidated Financial Statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, a reasonable estimate of liability, if any, cannot be made. Based on the current expected outcome of such matters, none of these proceedings, claims or assessments is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

10. NONCONTROLLING INTERESTS

Noncontrolling Interests in Consolidated Affiliates

At December 31, 2010, noncontrolling interests in consolidated affiliates, a component of equity, relates to our respective joint venture partners' 50.0% interest in Markel. Our joint venture partner is an unrelated third party.

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are investments in marketable securities which we use to pay benefits under our non-qualified deferred compensation plan. Our Level 1 liability is our non-qualified deferred compensation obligation.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

We had no Level 2 assets or liabilities at December 31, 2010 and 2009.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 assets are our tax increment financing bond, which is not routinely traded but whose fair value is determined using the income approach to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds, and real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which were valued using independent appraisals, substantiated by internal cash flow analyses.

The following tables set forth the assets and liability that we measure at fair value by level within the fair value hierarchy. We determine the level based on the lowest level of substantive input used to determine fair value.

	December 31, 2010	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 3 Significant Unobservable Inputs
Assets:			
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	\$ 3,479	\$ 3,479	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	15,699	—	15,699
Total Assets	\$ 19,178	\$ 3,479	\$ 15,699
Liability:			
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	\$ 4,091	\$ 4,091	\$ —

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

		Level 1	Level 3
		Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Unobservable Inputs
	December 31, 2009		
Assets:			
Marketable securities of non-qualified deferred compensation plan	\$ 6,135	\$ 6,135	\$ —
Tax increment financing bond	16,871	—	16,871
Impaired real estate assets	32,000	—	32,000
Total Assets	\$ 55,006	\$ 6,135	\$ 48,871
Liability:			
Non-qualified deferred compensation obligation	\$ 6,898	\$ 6,898	\$ —

The following table sets forth the changes in our Level 3 asset:

	December 31, 2010	2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	\$ 16,871	\$ 17,468
Principal repayment	(995)	(890)
Unrealized gain/(loss) (in AOCL)	(177)	293
Ending balance	\$ 15,699	\$ 16,871

In 2007, we acquired a tax increment financing bond associated with a property developed by us. This bond amortizes to maturity in 2020. The estimated fair value at December 31, 2010 was \$2.5 million below the outstanding principal due on the bond. If the yield-to-maturity used to fair value this bond was 100 basis points higher or lower, the fair value of the bond would have been \$0.7 million lower or higher, respectively, as of December 31, 2010. Currently, we intend to hold this bond and have concluded that we will not be required to sell this bond before recovery of the bond principal. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond in the years ended December 31, 2010 and 2009. There is no legal right of offset with the liability, which we report as a financing obligation, related to this tax increment financing bond.

The following table sets forth the carrying amounts and fair values of our financial instruments not disclosed elsewhere:

	Carrying Amount	Fair Value
December 31, 2010		
Mortgages and notes receivable	\$ 19,044	\$ 19,093
Mortgages and notes payable	\$ 1,522,945	\$ 1,581,518
Financing obligations (including Harborview financing obligation)	\$ 33,114	\$ 23,880
December 31, 2009		
Mortgages and notes receivable	\$ 3,143	\$ 3,143
Mortgages and notes payable	\$ 1,469,155	\$ 1,440,317
Financing obligations (including Harborview financing obligation)	\$ 37,706	\$ 31,664

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per unit data)

11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The carrying values of our cash and cash equivalents, restricted cash, accounts receivable, marketable securities of non-qualified deferred compensation plan, tax increment financing bond and non-qualified deferred compensation obligation are equal to or approximate fair value. The fair values of our mortgages and notes receivable, mortgages and notes payable and financing obligations were estimated using the income or market approaches to approximate the price that would be paid in an orderly transaction between market participants on the respective measurement dates.

12. EQUITY**Common Unit Distributions**

Distributions declared and paid per Common Unit aggregated \$1.70 for each of the years ended December 31, 2010, 2009 and 2008.

Redeemable Common Units

The Operating Partnership is obligated to redeem each Redeemable Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Redeemable Common Unit presented for redemption for cash or one share of Common Stock. When a holder redeems a Redeemable Common Unit for a share of Common Stock or cash, the Company's share in the Operating Partnership will be increased. The Common Units owned by the Company are not redeemable.

Preferred Units

The following table sets forth our Preferred Units:

Preferred Unit Issuances	Issue Date	Number of Units Outstanding (in thousands)	Carrying Value	Liquidation Preference Per Unit	Optional Redemption Date	Annual Distributions Payable Per Unit
December 31, 2010 and 2009:						
8.625% Series A Cumulative Redeemable	2/12/1997	29	\$ 29,092	\$ 1,000	2/12/2027	\$ 86.25
8.000% Series B Cumulative Redeemable	9/25/1997	2,100	\$ 52,500	\$ 25	9/25/2002	\$ 2.00

In 2008, the Company repurchased 53,845 outstanding 8.625% Series A Preferred Units for an aggregate purchase price of \$52.5 million.

Warrants

Warrants to acquire Common Stock were issued in 1997 and 1999 in connection with property acquisitions. Upon exercise of a warrant, the Company will contribute the exercise price to the Operating Partnership in exchange for Common Units. Therefore, the Operating Partnership accounts for such warrants as if issued by the Operating Partnership. In 2010 and 2009, there were no warrants exercised. In 2008, 10,000 warrants with an exercise price of \$32.50 were exercised. These warrants have no expiration date.

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per unit data)****13. EMPLOYEE BENEFIT PLANS****Officer, Management and Director Compensation Programs**

The officers of the Company, which is the sole general partner of the Operating Partnership, participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. In addition to considering the pay practices of the Company's peer group in determining each officer's incentive payment percentage, the officer's ability to influence the Company's performance is also considered. Each officer has a target annual non-equity incentive payment percentage that ranges from 25% to 130% of base salary depending on the officer's position. The officer's actual incentive payment for the year is the product of the target annual incentive payment percentage times a "performance factor," which can range from zero to 200%. This performance factor depends upon the relationship between how various performance criteria compare with predetermined goals. For an officer who has division responsibilities, goals for certain performance criteria are based partly on the division's actual performance relative to that division's established goals and partly on actual total performance. Incentive payments are accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

Certain other members of management participate in an annual non-equity incentive program whereby a target annual cash incentive payment is established based upon the job responsibilities of their position. Incentive payment eligibility ranges from 10% to 30% of annual base salary. The actual incentive payment is determined by our overall performance and the individual's performance during each year. These incentive payments are also accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

The following table sets forth the number of Common Units reserved for future issuance:

	December 31,	
	2010	2009
Outstanding stock options and warrants	1,495,196	1,482,773
Possible future issuance under equity incentive plans	2,642,620	3,000,000
	<u>4,137,816</u>	<u>4,482,773</u>

The Company's officers generally receive annual grants of stock options and restricted stock on or about March 1 of each year. Restricted stock grants are also made annually to directors and certain non-officer employees. At December 31, 2010, there was remaining availability of 2.6 million shares of Common Stock reserved for future issuance under the 2009 Long Term Equity Incentive Plan, of which no more than 0.8 million can be in the form of restricted stock.

Additional total return-based restricted stock may be issued at the end of the three-year periods if actual performance exceeds certain levels of performance. Such additional shares, if any, would be fully vested when issued. No expense is recorded for additional shares of total return-based restricted stock that may be issued at the end of the three-year period since that possibility is already reflected in the grant date fair value.

Dividends received on restricted stock are non-forfeitable and are paid at the same rate and on the same date as on shares of Common Stock. Dividends paid on subsequently forfeited shares are expensed.

During the years ended December 31, 2010, 2009 and 2008, we recognized \$6.6 million, \$6.6 million and \$6.7 million, respectively, of share-based compensation expense. Because we generally do not pay income taxes we do not realize tax benefits on share-based payments. At December 31, 2010, there was \$6.2 million of total unrecognized share-based compensation costs, which will be recognized over vesting periods that have a weighted average remaining term of 2.1 years.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

13. EMPLOYEE BENEFIT PLANS - Continued

- Stock Options

Stock options issued prior to 2005 vest ratably over four years and remain outstanding for 10 years. Stock options issued beginning in 2005 vest ratably over a four-year period and remain outstanding for seven years. The value of all options as of the date of grant is calculated using the Black-Scholes option-pricing model and is amortized over the respective vesting or service period. The fair values of options granted during 2010, 2009 and 2008 were \$4.96, \$1.82 and \$3.18, respectively, per option. The fair values of the options granted were determined at the grant dates using the following assumptions:

	2010	2009	2008
Risk free interest rate (1)	2.58%	2.31%	2.67%
Common stock dividend yield (2)	5.85%	8.96%	5.77%
Expected volatility (3)	32.2%	29.9%	22.64%
Average expected option life (years) (4)	5.75	5.75	5.75

- (1) Represents the interest rate as of the grant date on US treasury bonds having the same life as the estimated life of the option grants.
- (2) The dividend yield is calculated utilizing the dividends paid for the previous one-year period and the per share price of Common Stock on the date of grant.
- (3) Based on the historical volatility of Common Stock over a period relevant to the related stock option grant.
- (4) The average expected option life is based on an analysis of the Company's historical data.

The following table sets forth stock option grants:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 2007	1,909,821	\$ 26.45
Options granted	319,091	29.48
Options cancelled	(16,331)	31.66
Options exercised	(723,331)	22.95
Balances at December 31, 2008	1,489,250	28.74
Options granted	394,044	19.00
Options cancelled	(111,590)	27.65
Options exercised	(303,931)	24.18
Balances at December 31, 2009	1,467,773	27.15
Options granted	190,826	29.05
Options exercised	(178,403)	22.54
Balances at December 31, 2010 (1) (2)	1,480,196	\$ 27.95

- (1) The outstanding options at December 31, 2010 had a weighted average remaining life of 3.7 years and intrinsic value of \$7.2 million.
- (2) The Company has 806,782 options exercisable at December 31, 2010 with weighted average exercise price of \$30.10, weighted average remaining life of 2.6 years and intrinsic value of \$2.5 million. Of these exercisable options, 298,046 had exercise prices higher than the market price of our Common Stock at December 31, 2010.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

13. EMPLOYEE BENEFIT PLANS - Continued

Cash received or receivable from options exercised was \$4.4 million, \$7.4 million and \$15.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was \$1.7 million, \$2.0 million and \$9.6 million, respectively. The total intrinsic value of options outstanding at December 31, 2010, 2009 and 2008 was \$7.2 million, \$10.3 million and \$1.7 million, respectively. The Company generally does not permit the net cash settlement of exercised stock options, but does permit net share settlement so long as the shares received are held for at least one year. The Company has a policy of issuing new shares to satisfy stock option exercises.

- Time-Based Restricted Stock

Shares of time-based restricted stock issued to officers and employees generally vest 25% on the first, second, third and fourth anniversary dates, respectively. Shares of time-based restricted stock issued to directors generally vest 25% on January 1 of each successive year after the grant date. The value of grants of time-based restricted stock is based on the market value of Common Stock as of the date of grant and is amortized to expense over the respective vesting or service periods.

The following table sets forth time-based restricted stock grants:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2007	356,497	\$ 34.89
Awarded and issued (1)	92,150	30.13
Vested (2)	(113,823)	33.13
Forfeited	(5,029)	32.11
Restricted shares outstanding at December 31, 2008	329,795	34.21
Awarded and issued (1)	128,384	19.33
Vested (2)	(132,779)	33.38
Forfeited	(9,326)	31.26
Restricted shares outstanding at December 31, 2009	316,074	28.60
Awarded and issued (1)	88,930	29.05
Vested (2)	(138,745)	31.81
Forfeited	(1,933)	25.86
Restricted shares outstanding at December 31, 2010	<u>264,326</u>	<u>\$ 27.08</u>

-
- (1) The fair value at grant date of time-based restricted stock issued during the years ended December 31, 2010, 2009 and 2008 was \$2.6 million, \$2.5 million and \$2.8 million, respectively.
- (2) The vesting date fair value of time-based restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was \$4.3 million, \$2.9 million and \$4.8 million, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per unit data)

13. EMPLOYEE BENEFIT PLANS - Continued**- Total Return-Based and Performance-Based Restricted Stock**

During 2010, 2009 and 2008, the Company issued shares of total return-based restricted stock to officers that will vest from zero to 250% based on (1) the Company's absolute total returns for the three-year periods ended December 31, 2010, 2011 and 2012, respectively, relative to defined target returns and (2) whether the Company's total return exceeds the average total returns of a selected group of peer companies. The grant date fair value of such shares of total return-based restricted stock was determined to be 101%, 53.6% and 100%, respectively, of the market value of a share of Common Stock as of the grant date and is amortized over the respective three-year period.

During 2008, the Company also issued shares of performance-based restricted stock to officers that will vest pursuant to certain performance-based criteria. The performance-based criteria are based on whether or not we meet or exceed at the end of three-year performance periods certain operating and financial goals established under our Strategic Plan. To the extent actual performance equals or exceeds threshold performance goals, the portion of shares of performance-based restricted stock that vest can range from 50% to 100%. If actual performance does not meet such threshold goals, none of the performance-based restricted stock will vest. The fair value of performance-based restricted share grants is based on the market value of Common Stock as of the date of grant and the estimated performance to be achieved at the end of the three-year period. Such fair value is being amortized to expense during the period from grant date to the vesting dates, adjusting for the expected level of vesting that will occur at those dates.

The following table sets forth total return-based and performance-based restricted stock grants:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2007	135,472	\$ 32.52
Awarded and issued (1)	77,878	29.75
Vested (2)	(59,892)	26.82
Forfeited	(2,116)	29.23
Restricted shares outstanding at December 31, 2008	151,342	33.39
Awarded and issued (1)	127,594	15.01
Vested (2)	(68,929)	32.66
Forfeited	(7,232)	34.14
Restricted shares outstanding at December 31, 2009	202,775	22.05
Awarded and issued (1)	77,624	29.05
Vested (2)	(47,257)	38.50
Forfeited	(1,307)	22.99
Restricted shares outstanding at December 31, 2010	<u>231,835</u>	<u>\$ 21.03</u>

(1) The fair value at grant date of performance-based and total return-based restricted stock issued during the years ended December 31, 2010, 2009 and 2008 was \$2.3 million, \$1.9 million and \$2.3 million, respectively.

(2) The vesting date fair value of performance-based and total return-based restricted stock that vested during the years ended December 31, 2010, 2009 and 2008 was \$1.6 million, \$2.6 million and \$2.4 million, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per unit data)

13. EMPLOYEE BENEFIT PLANS - Continued**Retirement Plan**

The Company has adopted a retirement plan applicable to all employees, including officers, who, at the time of retirement, have at least 30 years of continuous qualified service or are at least 55 years old and have at least 10 years of continuous qualified service. Subject to advance retirement notice and execution of a non-compete agreement with us, eligible retirees are entitled to receive a pro rata amount of the annual incentive payment earned during the year of retirement. Stock options and restricted stock granted by the Company to such eligible retiree during his or her employment would be non-forfeitable and vest according to the terms of their original grants. The benefits of this retirement plan apply only to restricted stock and stock option grants and have been phased in 25% on March 1, 2006 and 25% on each anniversary thereof. For employees who meet the age and service eligibility requirements, 75% of their 2008 grants and 100% of their grants thereafter were deemed fully vested at the grant date, which increased compensation expense by approximately \$1.1 million, \$0.6 million and \$0.6 million in the years ended December 31, 2010, 2009 and 2008, respectively.

Deferred Compensation

The Company has a non-qualified deferred compensation plan pursuant to which each officer and director could elect to defer a portion of their base salary and/or annual non-equity incentive payment (or director fees) which are invested by the Company in various mutual funds. The Company indefinitely suspended this option to defer compensation earned after January 1, 2010. These investments are recorded at fair value which aggregated \$3.5 million and \$6.1 million at December 31, 2010 and 2009, respectively, and are included in prepaid expenses and other assets, with an offsetting deferred compensation liability recorded in accounts payable, accrued expenses and other liabilities. Such deferred compensation is expensed in the period earned by the officers and directors. Deferred amounts ultimately payable to the officers and directors are based on the value of the related mutual fund investments. Accordingly, changes in the value of the marketable mutual fund investments are recorded in interest and other income and the corresponding offsetting changes in the deferred compensation liability are recorded in general and administration expense. As a result, there is no effect on our net income subsequent to the time the compensation is deferred and fully funded.

The following table sets forth the Company's deferred compensation liability:

	Years Ended December 31,		
	2010	2009	2008
Beginning deferred compensation liability	\$ 6,898	\$ 6,522	\$ 7,867
Contributions to deferred compensation plans	229	—	1,574
Mark-to-market adjustment to deferred compensation (general and administrative expense)	246	1,497	(2,177)
Distributions from deferred compensation plans	(3,282)	(1,121)	(742)
Total deferred compensation liability	<u>\$ 4,091</u>	<u>\$ 6,898</u>	<u>\$ 6,522</u>

401(k) Savings Plan

We have a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. We contribute amounts for each participant at a rate of 75% of the employee's contribution (up to 6% of each employee's bi-weekly salary and cash incentives subject to statutory limits). During the years ended December 31, 2010, 2009 and 2008, we contributed \$1.0 million, \$1.0 million and \$1.1 million, respectively, to the 401(k) savings plan. The assets of this qualified plan are not included in our Consolidated Financial Statements since the assets are not owned by us. Administrative expenses of the plan are paid by us.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

13. EMPLOYEE BENEFIT PLANS - Continued

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan pursuant to which employees generally may contribute up to 25.0% of their base and annual non-equity incentive compensation for the purchase of Common Stock. At the end of each three-month offering period, the contributions in each participant's account balance, which includes accrued dividends, is applied to acquire shares of Common Stock at a cost that was calculated during 2010, 2009 and 2008 at 85.0% of the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. In the years ended December 31, 2010, 2009 and 2008, the Company issued 27,378, 37,287 and 29,324 shares, respectively, of Common Stock under the Employee Stock Purchase Plan. The discount on newly issued shares is expensed by us as additional compensation and aggregated \$0.1 million, \$0.3 million and \$0.2 million in the years ended December 31, 2010, 2009 and 2008, respectively.

14. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income represents net income plus the changes in certain amounts deferred in accumulated other comprehensive loss related to hedging activities and changes in fair market value of an available for-sale security. The following table sets forth the components of comprehensive income:

	Years Ended December 31,		
	2010	2009	2008
Net income	\$ 72,276	\$ 61,640	\$ 35,483
Other comprehensive income:			
Unrealized gain/(loss) on tax increment financing bond	(177)	293	(2,659)
Unrealized gains/(losses) on cash flow hedges	—	937	(1,376)
Amortization of settled cash flow hedges	237	(249)	181
Settlement of past cash flow hedge from disposition of investment in unconsolidated affiliate	103	—	—
Total other comprehensive income/(loss)	163	981	(3,854)
Total comprehensive income	\$ 72,439	\$ 62,621	\$ 31,629

Accumulated other comprehensive loss represents certain amounts deferred related to hedging activities and an available for-sale security. The following table sets forth the components of accumulated other comprehensive loss:

	December 31,	
	2010	2009
Tax increment financing bond	\$ 2,543	\$ 2,366
Settled cash flow hedges	1,105	1,445
	\$ 3,648	\$ 3,811

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per unit data)****15. RENTAL AND OTHER REVENUES; RENTAL PROPERTY AND OTHER EXPENSES**

Our real estate assets are leased to customers under operating leases. The minimum rental amounts under the leases are generally subject to scheduled fixed increases. Generally, the leases also require that the customers reimburse us for increases in certain costs above the base-year costs. The following table sets forth rental and other revenues from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Contractual rents, net	\$ 400,383	\$ 394,503	\$ 382,885
Straight-line rental income, net	11,205	3,521	6,192
Amortization of lease incentives	(1,239)	(1,100)	(1,020)
Property operating expense recoveries, net	41,906	44,561	45,849
Lease termination fees	2,992	1,813	2,561
Fee income	5,466	5,155	5,149
Other miscellaneous operating revenues	2,608	1,701	3,652
	<u>\$ 463,321</u>	<u>\$ 450,154</u>	<u>\$ 445,268</u>

The following table sets forth scheduled future minimum base rents to be received from customers for leases in effect at December 31, 2010 for the Wholly Owned Properties:

2011	\$ 401,997
2012	362,784
2013	312,210
2014	258,113
2015	203,491
Thereafter	665,366
	<u>\$ 2,203,961</u>

The following table sets forth rental property and other expenses from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Utilities, insurance and real estate taxes	\$ 90,883	\$ 91,077	\$ 86,213
Maintenance, cleaning and general building	57,170	56,413	57,925
Property management and administrative expenses	11,400	11,806	11,533
Other miscellaneous operating expenses	4,575	2,984	4,163
	<u>\$ 164,028</u>	<u>\$ 162,280</u>	<u>\$ 159,834</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

16. DISCONTINUED OPERATIONS

The following table sets forth our operations which required classification as discontinued operations:

	Years Ended December 31,		
	2010	2009	2008
Rental and other revenues	\$ 1,432	\$ 9,156	\$ 20,597
Operating expenses:			
Rental property and other expenses	656	3,476	7,887
Depreciation and amortization	365	1,855	4,785
Impairment of assets held for use	—	10,964	29,439
Total operating expenses	1,021	16,295	42,111
Interest expense	—	67	—
Other income	—	3	31
Income/(loss) before gains/(losses) on disposition of discontinued operations	411	(7,203)	(21,483)
Net gains/(losses) on disposition of discontinued operations	(86)	21,466	18,485
Total discontinued operations	<u>\$ 325</u>	<u>\$ 14,263</u>	<u>\$ (2,998)</u>
Carrying value of assets held for sale and assets sold that qualified for discontinued operations during the year	<u>\$ 28,006</u>	<u>\$ 82,986</u>	<u>\$ 132,489</u>

The following table sets forth the major classes of assets and liabilities of the properties held for sale:

	December 31,	
	2010	2009
Assets:		
Land	\$ —	\$ 867
Buildings and tenant improvements	20	3,876
Land held for development	1,197	1,197
Accumulated depreciation	—	(1,484)
Net real estate assets	1,217	4,456
Accrued straight line rents receivable	—	289
Deferred leasing costs, net	—	209
Prepaid expenses and other assets	32	77
Real estate and other assets, net, held for sale	<u>\$ 1,249</u>	<u>\$ 5,031</u>
Tenant security deposits, deferred rents and accrued costs (1)	<u>\$ 12</u>	<u>\$ 12</u>

(1) Included in accounts payable, accrued expenses and other liabilities.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

17. EARNINGS PER UNIT

The following table sets forth the computation of basic and diluted earnings per unit:

	Years Ended December 31,		
	2010	2009	2008
Earnings per common unit - basic:			
Numerator:			
Income from continuing operations	\$ 71,951	\$ 47,377	\$ 38,481
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(485)	(11)	(2,041)
Distributions on preferred units	(6,708)	(6,708)	(9,804)
Excess of preferred unit redemption/repurchase cost over carrying value	—	—	(108)
Income from continuing operations available for common unitholders	64,758	40,658	26,528
Income/(loss) from discontinued operations available for common unitholders	325	14,263	(2,998)
Net income available for common unitholders	<u>\$ 65,083</u>	<u>\$ 54,921</u>	<u>\$ 23,530</u>
Denominator:			
Denominator for basic earnings per Common Unit – weighted average units (1) (2)	<u>74,971</u>	<u>71,591</u>	<u>62,882</u>
Earnings per common unit - basic:			
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42
Income/(loss) from discontinued operations available for common unitholders	—	0.20	(0.05)
Net income available for common unitholders	<u>\$ 0.87</u>	<u>\$ 0.77</u>	<u>\$ 0.37</u>
Earnings per common unit - diluted:			
Numerator:			
Income from continuing operations	\$ 71,951	\$ 47,377	\$ 38,481
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(485)	(11)	(2,041)
Distributions on preferred units	(6,708)	(6,708)	(9,804)
Excess of preferred unit redemption/repurchase cost over carrying value	—	—	(108)
Income from continuing operations available for common unitholders	64,758	40,658	26,528
Income/(loss) from discontinued operations available for common unitholders	325	14,263	(2,998)
Net income available for common unitholders	<u>\$ 65,083</u>	<u>\$ 54,921</u>	<u>\$ 23,530</u>
Denominator:			
Denominator for basic earnings per Common Unit –weighted average units (1) (2)	74,971	71,591	62,882
Add:			
Unit options using the treasury method	198	79	201
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	<u>75,169</u>	<u>71,670</u>	<u>63,083</u>
Earnings per common unit - diluted:			
Income from continuing operations available for common unitholders	\$ 0.87	\$ 0.57	\$ 0.42
Income/(loss) from discontinued operations available for common unitholders	—	0.20	(0.05)
Net income available for common unitholders	<u>\$ 0.87</u>	<u>\$ 0.77</u>	<u>\$ 0.37</u>

(1) Options and warrants aggregating approximately 0.7 million, 1.0 million and 1.4 million units were outstanding during the years ended December 31, 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per unit because the impact of including such units would be anti-dilutive to the earnings per unit calculation .

(2) Includes all of the Company's unvested restricted stock since dividends on such restricted stock are non-forfeitable.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

18. INCOME TAXES

Our Consolidated Financial Statements include the operations of the Company's taxable REIT subsidiary, which is not entitled to the dividends paid deduction and is subject to corporate, state and local income taxes. The taxable REIT subsidiary has operated at a cumulative taxable loss through December 31, 2010 of approximately \$7.2 million and has paid no income taxes since its formation. In addition to the \$2.8 million deferred tax asset for these cumulative tax loss carryforwards, the taxable REIT subsidiary also had net deferred tax liabilities of approximately \$2.0 million comprised primarily of tax versus book basis differences in certain investments and depreciable assets held by the taxable REIT subsidiary. Because the future tax benefit of the cumulative losses is not assured, the approximate \$0.8 million net deferred tax asset position of the taxable REIT subsidiary has been fully reserved as management does not believe that it is more likely than not that the net deferred tax asset will be realized. The tax benefit of the cumulative losses could be recognized for financial reporting purposes in future periods to the extent the taxable REIT subsidiary generates sufficient taxable income. Other than income taxes related to its taxable REIT subsidiary, the Operating Partnership recorded state income tax expense in rental property and other expenses of \$0.6 million, \$0.5 million and \$0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The minimum dividend per share of Common Stock required for the Company to maintain its REIT status was \$0.32, \$0.89 and \$0.76 per share in 2010, 2009 and 2008, respectively. Continued qualification as a REIT depends on the Company's ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests prescribed in the Code. The tax basis of our assets (net of accumulated tax depreciation and amortization) and liabilities was approximately \$2.4 billion and \$1.6 billion at both December 31, 2010 and 2009.

The Company is subject to federal, state and local income tax examinations by tax authorities for 2007 through 2010.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

19. SEGMENT INFORMATION

Our principal business is the operation, acquisition and development of rental real estate properties. We evaluate our business by product type and by geographic location. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

Our accounting policies of the segments are the same as those used in our Consolidated Financial Statements. All operations are within the United States and, at December 31, 2010, no single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues on an annualized basis.

The following table summarizes the rental and other revenues and net operating income, the primary industry property-level performance metric which is defined as rental and other revenues less rental property and other expenses, for each reportable segment:

	Years Ended December 31,		
	2010	2009	2008
Rental and Other Revenues: (1)			
Office:			
Atlanta, GA	\$ 48,051	\$ 48,704	\$ 47,065
Greenville, SC	13,616	14,010	13,982
Kansas City, MO	14,822	14,839	15,349
Memphis, TN	34,982	30,642	25,852
Nashville, TN	59,151	60,551	60,193
Orlando, FL	11,615	11,809	11,402
Piedmont Triad, NC	23,350	23,391	23,417
Raleigh, NC	75,605	72,521	69,696
Richmond, VA	47,190	46,617	47,972
Tampa, FL	72,522	67,294	65,854
Total Office Segment	<u>400,904</u>	<u>390,378</u>	<u>380,782</u>
Industrial:			
Atlanta, GA	15,159	15,611	15,721
Piedmont Triad, NC	12,376	12,778	12,674
Total Industrial Segment	<u>27,535</u>	<u>28,389</u>	<u>28,395</u>
Retail:			
Kansas City, MO	33,527	29,997	34,633
Piedmont Triad, NC	—	185	221
Raleigh, NC	135	120	36
Total Retail Segment	<u>33,662</u>	<u>30,302</u>	<u>34,890</u>
Residential:			
Kansas City, MO	1,220	1,085	1,201
Total Residential Segment	<u>1,220</u>	<u>1,085</u>	<u>1,201</u>
Total Rental and Other Revenues	<u>\$ 463,321</u>	<u>\$ 450,154</u>	<u>\$ 445,268</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

19. SEGMENT INFORMATION - Continued

	Years Ended December 31,		
	2010	2009	2008
Net Operating Income: (1)			
Office:			
Atlanta, GA	\$ 30,404	\$ 30,810	\$ 28,861
Greenville, SC	8,156	8,722	8,819
Kansas City, MO	8,893	9,088	9,256
Memphis, TN	20,853	17,730	15,160
Nashville, TN	39,336	39,138	39,687
Orlando, FL	6,267	6,279	6,311
Piedmont Triad, NC	15,342	15,349	14,927
Raleigh, NC	52,320	48,868	45,695
Richmond, VA	32,089	32,081	32,252
Tampa, FL	45,537	40,157	39,382
Total Office Segment	259,197	248,222	240,350
Industrial:			
Atlanta, GA	10,684	11,627	11,929
Piedmont Triad, NC	9,053	9,758	9,786
Total Industrial Segment	19,737	21,385	21,715
Retail:			
Atlanta, GA (2)	(21)	(21)	(26)
Kansas City, MO	19,963	18,207	22,596
Piedmont Triad, NC	—	12	177
Raleigh, NC (2)	37	9	(60)
Total Retail Segment	19,979	18,207	22,687
Residential:			
Kansas City, MO	742	582	716
Raleigh, NC (2)	(362)	(528)	(34)
Total Residential Segment	380	54	682
Total Net Operating Income	299,293	287,868	285,434
Reconciliation to income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates:			
Depreciation and amortization	(135,793)	(130,028)	(122,835)
Impairment of assets held for use	—	(2,554)	(3,407)
General and administrative expense	(33,308)	(37,208)	(38,187)
Interest expense	(93,372)	(86,805)	(98,492)
Other income	5,657	9,549	3,759
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	\$ 42,477	\$ 40,822	\$ 26,272

(1) Net of discontinued operations.

(2) Consists of real estate taxes and other carrying costs associated with land held for development that is currently zoned for the respective product type.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

19. SEGMENT INFORMATION - Continued

	December 31,		
	2010	2009	2008
Total Assets:			
Office:			
Atlanta, GA	\$ 268,772	\$ 275,464	\$ 277,472
Baltimore, MD	1,787	1,787	1,793
Greenville, SC	73,931	78,567	83,554
Kansas City, MO	84,197	85,681	87,954
Memphis, TN	270,091	220,722	187,316
Nashville, TN	326,855	338,124	348,068
Orlando, FL	47,042	48,821	50,852
Piedmont Triad, NC	126,680	141,971	148,511
Raleigh, NC	457,945	464,729	469,448
Richmond, VA	249,036	249,881	257,221
Tampa, FL	395,931	393,812	379,146
Total Office Segment	2,302,267	2,299,559	2,291,335
Industrial:			
Atlanta, GA	135,858	136,570	137,510
Kansas City, MO	—	—	123
Piedmont Triad, NC	79,321	92,300	100,429
Total Industrial Segment	215,179	228,870	238,062
Retail:			
Atlanta, GA	306	1,044	1,070
Kansas City, MO	172,116	175,757	224,603
Piedmont Triad, NC	—	1,082	10,423
Raleigh, NC	5,170	6,048	4,452
Total Retail Segment	177,592	183,931	240,548
Residential:			
Kansas City, MO	5,925	6,129	6,471
Orlando, FL	2,098	2,147	2,147
Raleigh, NC	9,574	16,291	28,698
Total Residential Segment	17,597	24,567	37,316
Corporate	158,036	148,811	137,595
Total Assets	\$ 2,870,671	\$ 2,885,738	\$ 2,944,856

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

20 . QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth quarterly financial information and have been adjusted to reflect discontinued operations:

	Year Ended December 31, 2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (1)	\$ 115,054	\$ 114,339	\$ 116,063	\$ 117,865	\$ 463,321
Income from continuing operations (1)	11,700	40,095	8,788	11,368	71,951
Income/(loss) from discontinued operations (1)	388	(63)	—	—	325
Net income	12,088	40,032	8,788	11,368	72,276
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(214)	(215)	148	(204)	(485)
Distributions on preferred units	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income available for common unitholders	<u>\$ 10,197</u>	<u>\$ 38,140</u>	<u>\$ 7,259</u>	<u>\$ 9,487</u>	<u>\$ 65,083</u>
Earnings per unit-basic:					
Income from continuing operations available for common unitholders	\$ 0.13	\$ 0.51	\$ 0.10	\$ 0.13	\$ 0.87
Income from discontinued operations available for common unitholders	0.01	—	—	—	—
Net income available for common unitholders	<u>\$ 0.14</u>	<u>\$ 0.51</u>	<u>\$ 0.10</u>	<u>\$ 0.13</u>	<u>\$ 0.87</u>
Earnings per unit-diluted:					
Income from continuing operations available for common unitholders	\$ 0.13	\$ 0.51	\$ 0.10	\$ 0.13	\$ 0.87
Income from discontinued operations available for common unitholders	0.01	—	—	—	—
Net income available for common unitholders	<u>\$ 0.14</u>	<u>\$ 0.51</u>	<u>\$ 0.10</u>	<u>\$ 0.13</u>	<u>\$ 0.87</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per unit data)

20 . QUARTERLY FINANCIAL DATA (Unaudited)

	Year Ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (1)	\$ 112,361	\$ 111,914	\$ 113,170	\$ 112,709	\$ 450,154
Income from continuing operations (1)	11,719	14,913	12,291	8,454	47,377
Income/(loss) from discontinued operations (1)	1,444	22,146	269	(9,596)	14,263
Net income/(loss)	13,163	37,059	12,560	(1,142)	61,640
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(18)	(116)	(24)	147	(11)
Distributions on preferred units	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income/(loss) available for common unitholders	<u>\$ 11,468</u>	<u>\$ 35,266</u>	<u>\$ 10,859</u>	<u>\$ (2,672)</u>	<u>\$ 54,921</u>
Earnings per unit-basic:					
Income from continuing operations available for common unitholders	\$ 0.15	\$ 0.19	\$ 0.15	\$ 0.09	\$ 0.57
Income/(loss) from discontinued operations available for common unitholders	0.02	0.32	—	(0.13)	0.20
Net income/(loss) available for common unitholders	<u>\$ 0.17</u>	<u>\$ 0.51</u>	<u>\$ 0.15</u>	<u>\$ (0.04)</u>	<u>\$ 0.77</u>
Earnings per unit-diluted:					
Income from continuing operations available for common unitholders	\$ 0.15	\$ 0.19	\$ 0.15	\$ 0.09	\$ 0.57
Income/(loss) from discontinued operations available for common unitholders	0.02	0.32	—	(0.13)	0.20
Net income/(loss) available for common unitholders	<u>\$ 0.17</u>	<u>\$ 0.51</u>	<u>\$ 0.15</u>	<u>\$ (0.04)</u>	<u>\$ 0.77</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(tabular dollar amounts in thousands, except per unit data)

20. QUARTERLY FINANCIAL DATA (Unaudited) – Continued

- (1) The amounts presented may not equal to the amounts previously reported in the most recent Form 10-Qs or prior 10-K for each period as a result of discontinued operations. Below is the reconciliation to the amounts previously reported:

	Quarter Ended		
	March 31, 2010	June 30, 2010	September 30, 2010
Rental and other revenues, as reported	\$ 115,818	\$ 114,339	\$ 116,063
Discontinued operations	(764)	—	—
Rental and other revenues, as adjusted	<u>\$ 115,054</u>	<u>\$ 114,339</u>	<u>\$ 116,063</u>
Income from continuing operations, as reported	\$ 11,900	\$ 40,095	\$ 8,788
Discontinued operations	(200)	—	—
Income from continuing operations, as adjusted	<u>\$ 11,700</u>	<u>\$ 40,095</u>	<u>\$ 8,788</u>
Income/(loss) from discontinued operations, as reported	\$ 188	\$ (63)	\$ —
Additional discontinued operations from properties sold subsequent to the respective reporting period	200	—	—
Income/(loss) from discontinued operations, as adjusted	<u>\$ 388</u>	<u>\$ (63)</u>	<u>\$ —</u>

	Quarter Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Rental and other revenues, as reported	\$ 113,220	\$ 111,914	\$ 113,170	\$ 113,669
Discontinued operations	(859)	—	—	(960)
Rental and other revenues, as adjusted	<u>\$ 112,361</u>	<u>\$ 111,914</u>	<u>\$ 113,170</u>	<u>\$ 112,709</u>
Income/(loss) from continuing operations, as reported (a)	\$ 11,992	\$ 14,913	\$ 12,291	\$ (2,114)
Discontinued operations	(273)	—	—	10,568
Income from continuing operations, as adjusted	<u>\$ 11,719</u>	<u>\$ 14,913</u>	<u>\$ 12,291</u>	<u>\$ 8,454</u>
Income from discontinued operations, as reported	\$ 1,171	\$ 22,146	\$ 269	\$ 972
Additional discontinued operations from properties sold subsequent to the respective reporting period	273	—	—	(10,568)
Income/(loss) from discontinued operations, as adjusted	<u>\$ 1,444</u>	<u>\$ 22,146</u>	<u>\$ 269</u>	<u>\$ (9,596)</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per unit data)

21 . SUBSEQUENT EVENTS

On February 2, 2011, we obtained a \$200.0 million, five-year unsecured bank term loan bearing interest of LIBOR plus 220 basis points. The funding of this loan will occur on February 25, 2011 and the proceeds will be used on such date to pay off at maturity a \$137.5 million unsecured bank term loan, amounts then outstanding under our revolving credit facility and for general corporate purposes.

On January 26, 2011, the Company's Board of Directors declared a cash dividend of \$0.425 per share of Common Stock payable on March 8, 2011 to its stockholders of record on February 14, 2011, a cash dividend of \$21.5625 per share of 8.625% Series A Cumulative Redeemable Preferred Shares payable on February 28, 2011 to its stockholders of record on February 15, 2011 and a cash dividend of \$0.50 per share of 8.000% Series B Cumulative Redeemable Preferred Shares payable on March 15, 2011 to its stockholders of record on March 1, 2011.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE II

(in thousands)

The following table sets forth the activity of allowance for doubtful accounts:

	Balance at December 31, 2009	Additions	Deductions	Balance at December 31, 2010
Allowance for Doubtful Accounts - Straight Line Rent	\$ 2,443	\$ 635	\$ (869)	\$ 2,209
Allowance for Doubtful Accounts - Accounts Receivable	2,810	2,961	(2,176)	3,595
Allowance for Doubtful Accounts - Notes Receivable	698	413	(243)	868
Totals	<u>\$ 5,951</u>	<u>\$ 4,009</u>	<u>\$ (3,288)</u>	<u>\$ 6,672</u>

	Balance at December 31, 2008	Additions	Deductions	Balance at December 31, 2009
Allowance for Doubtful Accounts - Straight Line Rent	\$ 2,082	\$ 2,484	\$ (2,123)	\$ 2,443
Allowance for Doubtful Accounts - Accounts Receivable	1,281	2,900	(1,371)	2,810
Allowance for Doubtful Accounts - Notes Receivable	459	255	(16)	698
Totals	<u>\$ 3,822</u>	<u>\$ 5,639</u>	<u>\$ (3,510)</u>	<u>\$ 5,951</u>

	Balance at December 31, 2007	Additions	Deductions	Balance at December 31, 2008
Allowance for Doubtful Accounts - Straight Line Rent	\$ 440	\$ 1,905	\$ (263)	\$ 2,082
Allowance for Doubtful Accounts - Accounts Receivable	935	1,091	(745)	1,281
Allowance for Doubtful Accounts - Notes Receivable	68	395	(4)	459
Totals	<u>\$ 1,443</u>	<u>\$ 3,391</u>	<u>\$ (1,012)</u>	<u>\$ 3,822</u>

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTE TO SCHEDULE III

(in thousands)

The following table sets forth the activity of real estate assets and accumulated depreciation:

	December 31,		
	2010	2009	2008
Real estate assets:			
Beginning balance	\$ 3,341,257	\$ 3,272,904	\$ 3,180,661
Additions:			
Acquisitions, development and improvements	104,199	167,624	184,208
Cost of real estate sold and retired	(91,914)	(99,271)	(91,965)
Ending balance (a)	<u>\$ 3,353,542</u>	<u>\$ 3,341,257</u>	<u>\$ 3,272,904</u>
Accumulated depreciation:			
Beginning balance	\$ 782,557	\$ 714,224	\$ 649,765
Depreciation expense	117,639	115,603	110,988
Real estate sold and retired	(65,031)	(47,270)	(46,529)
Ending balance (b)	<u>\$ 835,165</u>	<u>\$ 782,557</u>	<u>\$ 714,224</u>

(a) Reconciliation of total real estate assets to balance sheet caption:

	2010	2009	2008
Total per Schedule III	\$ 3,353,542	\$ 3,341,257	\$ 3,272,904
Development in progress exclusive of land included in Schedule III	4,524	—	61,938
Real estate assets, net, held for sale	(1,217)	(5,940)	(1,242)
Total real estate assets	<u>\$ 3,356,849</u>	<u>\$ 3,335,317</u>	<u>\$ 3,333,600</u>

(b) Reconciliation of total accumulated depreciation to balance sheet caption:

	2010	2009	2008
Total per Schedule III	\$ 835,165	\$ 782,557	\$ 714,224
Real estate assets, net, held for sale	—	(1,484)	—
Total accumulated depreciation	<u>\$ 835,165</u>	<u>\$ 781,073</u>	<u>\$ 714,224</u>

HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

(in thousands)

December 31, 2010

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
Atlanta, GA													
1700 Century Circle	Office	Atlanta		-	2,482	2	(11)	2	2,471	2,473	427	1983	5-40 yrs.
1800 Century Boulevard	Office	Atlanta		1,444	29,081	-	12,027	1,444	41,108	42,552	16,679	1975	5-40 yrs.
1825 Century Center	Office	Atlanta		864	-	303	15,280	1,167	15,280	16,447	4,099	2002	5-40 yrs.
1875 Century Boulevard	Office	Atlanta		-	8,924	-	2,225	-	11,149	11,149	4,279	1976	5-40 yrs.
1900 Century Boulevard	Office	Atlanta		-	4,744	-	900	-	5,644	5,644	2,164	1971	5-40 yrs.
2200 Century Parkway	Office	Atlanta		-	14,432	-	3,680	-	18,112	18,112	6,676	1971	5-40 yrs.
2400 Century Center	Office	Atlanta		-	-	406	15,665	406	15,665	16,071	6,919	1998	5-40 yrs.
2500 Century Center	Office	Atlanta		-	-	328	14,311	328	14,311	14,639	2,801	2005	5-40 yrs.
2500/2635 Parking Garage	Office	Atlanta		-	-	-	6,242	-	6,242	6,242	795	2005	5-40 yrs.
2600 Century Parkway	Office	Atlanta		-	10,679	-	3,706	-	14,385	14,385	4,934	1973	5-40 yrs.
2635 Century Parkway	Office	Atlanta		-	21,643	-	3,213	-	24,856	24,856	9,348	1980	5-40 yrs.
2800 Century Parkway	Office	Atlanta		-	20,449	-	2,923	-	23,372	23,372	7,990	1983	5-40 yrs.
50 Glenlake	Office	Atlanta	(1)	2,500	20,006	-	2,229	2,500	22,235	24,735	7,432	1997	5-40 yrs.
6348 Northeast Expressway	Industrial	Atlanta		275	1,655	-	199	275	1,854	2,129	680	1978	5-40 yrs.
6438 Northeast Expressway	Industrial	Atlanta		179	2,216	-	493	179	2,709	2,888	967	1981	5-40 yrs.
Bluegrass Lakes I	Industrial	Atlanta		816	-	336	2,908	1,152	2,908	4,060	947	1999	5-40 yrs.
Bluegrass Place I	Industrial	Atlanta		491	2,061	-	344	491	2,405	2,896	834	1995	5-40 yrs.
Bluegrass Place II	Industrial	Atlanta		412	2,583	-	98	412	2,681	3,093	883	1996	5-40 yrs.
Bluegrass Valley	Industrial	Atlanta		1,500	-	374	3,240	1,874	3,240	5,114	990	2000	5-40 yrs.
Bluegrass Valley Land	Industrial	Atlanta		19,711	-	4,810)	-	4,901	-	4,901	-	N/A	N/A
Century Plaza I	Office	Atlanta		1,290	8,567	-	3,491	1,290	12,058	13,348	3,803	1981	5-40 yrs.
Century Plaza II	Office	Atlanta		1,380	7,733	-	1,541	1,380	9,274	10,654	2,623	1984	5-40 yrs.
Chastain Place I	Industrial	Atlanta		451	-	341	3,359	792	3,359	4,151	1,080	1997	5-40 yrs.
Chastain Place II	Industrial	Atlanta		599	-	194	1,578	793	1,578	2,371	519	1998	5-40 yrs.
Chastain Place III	Industrial	Atlanta		539	-	173	1,349	712	1,349	2,061	395	1999	5-40 yrs.
Corporate Lakes	Industrial	Atlanta		1,265	7,243	-	1,779	1,265	9,022	10,287	2,960	1988	5-40 yrs.
DHS.ICE	Office	Atlanta		3,100	-	2,576	15,874	5,676	15,874	21,550	1,747	2007	5-40 yrs.
FAA at Tradeport	Office	Atlanta	(2)	1,196	-	1,416	15,132	2,612	15,132	17,744	1,042	2009	5-40 yrs.
Gwinnett Distribution Center	Industrial	Atlanta		1,119	5,960	-	1,596	1,119	7,556	8,675	2,711	1991	5-40 yrs.
Henry County Land	Industrial	Atlanta		3,010	-	13	-	3,023	-	3,023	-	N/A	N/A
Highwoods Center I at Tradeport	Office	Atlanta	(1)	307	-	139	2,041	446	2,041	2,487	582	1999	5-40 yrs.
Highwoods Center II at Tradeport	Office	Atlanta	(1)	641	-	162	2,620	803	2,620	3,423	713	1999	5-40 yrs.
Highwoods Center III at Tradeport	Office	Atlanta	(1)	409	-	130	2,178	539	2,178	2,717	494	2001	5-40 yrs.
Highwoods Riverpoint IV	Industrial	Atlanta		1,037	-	750	8,732	1,787	8,732	10,519	542	2009	5-40 yrs.
National Archives and Records Administration	Industrial	Atlanta		1,484	-	-	17,825	1,484	17,825	19,309	3,057	2004	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
Newpoint Place I	Industrial	Atlanta		819	-	356	3,144	1,175	3,144	4,319	827	1998	5-40 yrs.
Newpoint Place II	Industrial	Atlanta		1,499	-	394	3,188	1,893	3,188	5,081	1,028	1999	5-40 yrs.
Newpoint Place III	Industrial	Atlanta		668	-	253	2,325	921	2,325	3,246	942	1998	5-40 yrs.
Newpoint Place IV	Industrial	Atlanta		989	-	406	4,551	1,395	4,551	5,946	1,695	2001	5-40 yrs.
Newpoint Place V	Industrial	Atlanta		2,150	-	816	9,101	2,966	9,101	12,067	1,446	2007	5-40 yrs.
Norcross I & II	Industrial	Atlanta		323	2,000	-	698	323	2,698	3,021	949	1970	5-40 yrs.
Nortel	Office	Atlanta		3,342	32,111	-	375	3,342	32,486	35,828	10,434	1998	5-40 yrs.
River Point Land	Industrial	Atlanta		7,250	-	4,551	2,547	11,801	2,547	14,348	75	N/A	N/A
South Park	Multi-Family	Atlanta		50	-	7	-	57	-	57	-	N/A	N/A
Residential Land	Family	Atlanta		50	-	7	-	57	-	57	-	N/A	N/A
South Park Site													
Land	Industrial	Atlanta		1,204	-	754	-	1,958	-	1,958	-	N/A	N/A
Southside													
Distribution Center	Industrial	Atlanta		804	4,553	-	2,093	804	6,646	7,450	2,141	1988	5-40 yrs.
Tradeport I	Industrial	Atlanta		557	-	261	2,518	818	2,518	3,336	866	1999	5-40 yrs.
Tradeport II	Industrial	Atlanta		557	-	261	2,000	818	2,000	2,818	599	1999	5-40 yrs.
Tradeport III	Industrial	Atlanta		673	-	370	2,650	1,043	2,650	3,693	647	1999	5-40 yrs.
Tradeport IV	Industrial	Atlanta		667	-	365	3,675	1,032	3,675	4,707	721	2001	5-40 yrs.
Tradeport Land	Industrial	Atlanta		5,243	-	(387)	-	4,856	-	4,856	-	N/A	N/A
Tradeport V	Industrial	Atlanta		463	-	180	2,109	643	2,109	2,752	523	2002	5-40 yrs.
Two Point Royal	Office	Atlanta	(1)	1,793	14,964	-	2,821	1,793	17,785	19,578	5,627	1997	5-40 yrs.
Baltimore, MD													
Sportsman Club													
Land	Office	Baltimore		24,931	-	(23,147)	-	1,784	-	1,784	-	N/A	N/A
Greenville, SC													
Brookfield Plaza	Office	Greenville		1,500	8,514	-	2,519	1,500	11,033	12,533	4,001	1987	5-40 yrs.
Brookfield-Jacobs-Sirrine	Office	Greenville		3,050	17,280	(23)	4,533	3,027	21,813	24,840	8,132	1990	5-40 yrs.
MetLife @													
Brookfield	Office	Greenville		1,039	-	352	10,563	1,391	10,563	11,954	4,230	2001	5-40 yrs.
Patewood I	Office	Greenville		942	5,117	-	1,408	942	6,525	7,467	2,761	1985	5-40 yrs.
Patewood II	Office	Greenville		942	5,176	-	1,223	942	6,399	7,341	2,601	1987	5-40 yrs.
Patewood III	Office	Greenville		842	4,776	-	2,088	842	6,864	7,706	3,223	1989	5-40 yrs.
Patewood IV	Office	Greenville		1,219	6,918	-	2,220	1,219	9,138	10,357	4,006	1989	5-40 yrs.
Patewood V	Office	Greenville		1,690	9,589	-	2,125	1,690	11,714	13,404	4,642	1990	5-40 yrs.
Patewood VI	Office	Greenville		2,360	-	321	7,938	2,681	7,938	10,619	2,604	1999	5-40 yrs.
Kansas City, MO													
Country Club Plaza	Mixed-Use	Kansas City		14,286	146,879	(198)	116,782	14,088	263,661	277,749	82,557	1920-2002	5-40 yrs.
Land - Hotel Land - Valencia	Office	Kansas City		978	-	111	-	1,089	-	1,089	-	N/A	N/A
Neptune Apartments	Multi-Family	Kansas City		1,098	6,282	-	665	1,098	6,947	8,045	2,125	1988	5-40 yrs.
One Ward Parkway	Office	Kansas City		681	3,937	-	1,613	681	5,550	6,231	1,705	1980	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Land	Bldg & Improv	Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
						Initial Costs							
Park Plaza	Office	Kansas City	(3)	1,384	6,410	-	2,111	1,384	8,521	9,905	3,029	1983	5-40 yrs.
Two Brush Creek	Office	Kansas City		984	4,402	-	1,257	984	5,659	6,643	1,690	1983	5-40 yrs.
Valencia Place Office	Office	Kansas City	(3)	1,576	-	970	33,792	2,546	33,792	36,338	11,101	1999	5-40 yrs.
Memphis, TN						-							
3400 Players Club Parkway	Office	Memphis		1,005	-	207	5,376	1,212	5,376	6,588	1,879	1997	5-40 yrs.
6000 Poplar Ave	Office	Memphis		2,340	11,385	(849)	4,220	1,491	15,605	17,096	3,961	1985	5-40 yrs.
6060 Poplar Ave	Office	Memphis		1,980	8,677	(404)	2,504	1,576	11,181	12,757	2,979	1987	5-40 yrs.
Atrium I & II	Office	Memphis		1,570	6,253	-	2,350	1,570	8,603	10,173	3,127	1984	5-40 yrs.
Centrum	Office	Memphis		1,013	5,580	-	2,003	1,013	7,583	8,596	2,372	1979	5-40 yrs.
Comcast Corporation	Office	Memphis		946	-	-	8,621	946	8,621	9,567	984	2008	5-40 yrs.
International Place II	Office	Memphis	(4)	4,884	27,782	-	4,206	4,884	31,988	36,872	11,982	1988	5-40 yrs.
Penn Marc	Office	Memphis	7,703	3,607	10,240	-	1,196	3,607	11,436	15,043	1,056	2008	5-40 yrs.
Shadow Creek I	Office	Memphis		924	-	466	7,039	1,390	7,039	8,429	2,126	2000	5-40 yrs.
Shadow Creek II	Office	Memphis		734	-	467	7,540	1,201	7,540	8,741	2,351	2001	5-40 yrs.
Southwind Office Center A	Office	Memphis		1,004	5,694	282	1,307	1,286	7,001	8,287	2,382	1991	5-40 yrs.
Southwind Office Center B	Office	Memphis		1,366	7,754	-	1,149	1,366	8,903	10,269	3,261	1990	5-40 yrs.
Southwind Office Center C	Office	Memphis		1,070	-	221	5,015	1,291	5,015	6,306	1,457	1998	5-40 yrs.
Southwind Office Center D	Office	Memphis		744	-	193	4,761	937	4,761	5,698	1,339	1999	5-40 yrs.
The Colonnade	Office	Memphis		1,300	6,481	267	181	1,567	6,662	8,229	2,204	1998	5-40 yrs.
ThyssenKrupp	Office	Memphis		1,040	-	25	8,344	1,065	8,344	9,409	1,468	2007	5-40 yrs.
FBI Jackson	Office	Memphis	(2)	871	-	296	36,719	1,167	36,719	37,886	1,381	2007	5-40 yrs.
Crescent Center	Office	Memphis	40,199	7,875	32,756	-	749	7,875	33,505	41,380	613	1986	5-40 yrs.
Triad Center	Office	Memphis		1,253	-	-	31,782	1,253	31,782	33,035	707	2009	5-40 yrs.
Nashville, TN													
3322 West End	Office	Nashville		3,025	27,490	-	3,644	3,025	31,134	34,159	9,000	1986	5-40 yrs.
3401 West End	Office	Nashville		5,862	22,917	-	5,542	5,862	28,459	34,321	11,144	1982	5-40 yrs.
5310 Maryland Way	Office	Nashville		1,863	7,201	-	226	1,863	7,427	9,290	2,695	1994	5-40 yrs.
BNA Corporate Center	Office	Nashville		-	18,506	-	8,147	-	26,653	26,653	9,484	1985	5-40 yrs.
Century City Plaza I	Office	Nashville		903	6,919	-	(2,411)	903	4,508	5,411	1,706	1987	5-40 yrs.
Cool Springs 1 & 2 Deck	Office	Nashville	(5)	-	-	-	3,958	-	3,958	3,958	314	2007	5-40 yrs.
Cool Springs 3 & 4 Deck	Office	Nashville		-	-	-	4,418	-	4,418	4,418	415	2007	5-40 yrs.
Cool Springs I	Office	Nashville	(5)	1,583	-	15	12,163	1,598	12,163	13,761	3,637	1999	5-40 yrs.
Cool Springs II	Office	Nashville	(5)	1,824	-	346	17,523	2,170	17,523	19,693	4,756	1999	5-40 yrs.
Cool Springs III	Office	Nashville	(5)	1,631	-	804	17,957	2,435	17,957	20,392	3,571	2006	5-40 yrs.
Cool Springs IV	Office	Nashville		1,715	-	-	20,326	1,715	20,326	22,041	1,364	2008	5-40 yrs.
Cool Springs V	Office	Nashville		3,688	-	295	52,391	3,983	52,391	56,374	5,062	2007	5-40 yrs.
Harpeth on the Green II	Office	Nashville	(1)	1,419	5,677	-	1,279	1,419	6,956	8,375	2,529	1984	5-40 yrs.
Harpeth on the Green III	Office	Nashville	(1)	1,660	6,649	-	2,014	1,660	8,663	10,323	2,910	1987	5-40 yrs.
Harpeth on the Green IV	Office	Nashville	(1)	1,713	6,842	-	1,468	1,713	8,310	10,023	3,043	1989	5-40 yrs.

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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Land	Bldg & Improv	Costs Capitalized		Land	Improv	Land	Improv	Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
						Initial Costs	Subsequent to Acquisition								
Harpeth on The Green V	Office	Nashville	(1)	662	-	197	4,188	859	4,188	5,047		1,408	1998		5-40 yrs.
Hickory Trace	Office	Nashville	(4)	1,164	-	164	4,929	1,328	4,929	6,257		1,171	2001		5-40 yrs.
Highwoods Plaza I	Office	Nashville	(1)	1,552	-	307	8,346	1,859	8,346	10,205		3,055	1996		5-40 yrs.
Highwoods Plaza II	Office	Nashville	(1)	1,448	-	307	5,772	1,755	5,772	7,527		1,905	1997		5-40 yrs.
Lakeview Ridge II	Office	Nashville	(1)	605	-	187	4,232	792	4,232	5,024		1,363	1998		5-40 yrs.
Lakeview Ridge III	Office	Nashville	(1)	1,073	-	400	10,042	1,473	10,042	11,515		3,794	1999		5-40 yrs.
Seven Springs - Land I	Office	Nashville		3,122	-	1,399	-	4,521	-	4,521		-	N/A		N/A
Seven Springs - Land II	Office	Nashville		3,715	-	(1,025)	-	2,690	-	2,690		-	N/A		N/A
Seven Springs I	Office	Nashville		2,076	-	592	12,721	2,668	12,721	15,389		3,902	2002		5-40 yrs.
SouthPointe	Office	Nashville		1,655	-	310	6,406	1,965	6,406	8,371		1,948	1998		5-40 yrs.
Southwind Land	Office	Nashville		3,662	-	(874)	-	2,788	-	2,788		-	N/A		N/A
The Ramparts at Brentwood	Office	Nashville		2,394	12,806	-	1,912	2,394	14,718	17,112		3,909	1986		5-40 yrs.
Westwood South	Office	Nashville	(1)	2,106	-	382	8,480	2,488	8,480	10,968		2,353	1999		5-40 yrs.
Winners Circle	Office	Nashville	(1)	1,497	7,258	-	751	1,497	8,009	9,506		2,595	1987		5-40 yrs.
Orlando, FL															
Berkshire at Metro Center	Office	Orlando		1,265	-	672	12,802	1,937	12,802	14,739		1,793	2007		5-40 yrs.
Capital Plaza III	Office	Orlando		2,994	-	18	-	3,012	-	3,012		-	N/A		N/A
Eola Park Land	Office	Orlando		2,027	-	-	-	2,027	-	2,027		-	N/A		N/A
In Charge Institute	Office	Orlando		501	-	95	1,797	596	1,797	2,393		472	2000		5-40 yrs.
MetroWest 1 Land	Office	Orlando		1,100	-	51	-	1,151	-	1,151		-	N/A		N/A
Metrowest Center	Office	Orlando		1,354	7,687	269	2,072	1,623	9,759	11,382		4,004	1988		5-40 yrs.
Metrowest Land	Office	Orlando		2,034	-	(148)	-	1,886	-	1,886		-	N/A		N/A
Windsor at Metro Center	Office	Orlando		-	-	2,060	7,809	2,060	7,809	9,869		1,514	2002		5-40 yrs.
Piedmont Triad, NC															
101 Stratford	Office	Piedmont Triad		1,205	6,916	-	1,469	1,205	8,385	9,590		3,005	1986		5-40 yrs.
150 Stratford	Office	Piedmont Triad		2,788	11,511	-	1,056	2,788	12,567	15,355		4,998	1991		5-40 yrs.
160 Stratford - Land	Office	Piedmont Triad		967	-	-	120	967	120	1,087		14	N/A		N/A
6348 Burnt Poplar	Industrial	Piedmont Triad		724	2,900	-	352	724	3,252	3,976		1,401	1990		5-40 yrs.
6350 Burnt Poplar	Industrial	Piedmont Triad		341	1,374	-	249	341	1,623	1,964		585	1992		5-40 yrs.
7341 West Friendly Avenue	Industrial	Piedmont Triad		113	841	-	288	113	1,129	1,242		445	1988		5-40 yrs.
7343 West Friendly Avenue	Industrial	Piedmont Triad		72	555	-	216	72	771	843		261	1988		5-40 yrs.
7345 West Friendly Avenue	Industrial	Piedmont Triad		66	492	-	234	66	726	792		239	1988		5-40 yrs.
7347 West Friendly Avenue	Industrial	Piedmont Triad		97	719	-	256	97	975	1,072		325	1988		5-40 yrs.
7349 West Friendly Avenue	Industrial	Piedmont Triad		53	393	-	80	53	473	526		173	1988		5-40 yrs.

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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
7351 West Friendly Avenue	Industrial	Piedmont Triad		106	788	-	159	106	947	1,053	333	1988	5-40 yrs.
7353 West Friendly Avenue	Industrial	Piedmont Triad		123	912	-	41	123	953	1,076	367	1988	5-40 yrs.
7355 West Friendly Avenue	Industrial	Piedmont Triad		72	538	-	187	72	725	797	271	1988	5-40 yrs.
Airpark East-Building 1	Office	Piedmont Triad		379	1,516	-	450	379	1,966	2,345	753	1990	5-40 yrs.
Airpark East-Building 2	Office	Piedmont Triad		462	1,849	-	409	462	2,258	2,720	805	1986	5-40 yrs.
Airpark East-Building 3	Office	Piedmont Triad		322	1,293	-	393	322	1,686	2,008	602	1986	5-40 yrs.
Airpark East-Building A	Office	Piedmont Triad		510	2,921	-	1,721	510	4,642	5,152	1,756	1986	5-40 yrs.
Airpark East-Building B	Office	Piedmont Triad		739	3,237	-	900	739	4,137	4,876	1,781	1988	5-40 yrs.
Airpark East-Building C	Office	Piedmont Triad	(4)	2,393	9,576	-	2,137	2,393	11,713	14,106	4,399	1990	5-40 yrs.
Airpark East-Building D	Office	Piedmont Triad	(4)	850	-	699	3,898	1,549	3,898	5,447	1,333	1997	5-40 yrs.
Airpark East-Copier Consultants	Industrial	Piedmont Triad		224	1,068	-	301	224	1,369	1,593	590	1990	5-40 yrs.
Airpark East-HewlettPackard	Office	Piedmont Triad		465	-	380	963	845	963	1,808	383	1996	5-40 yrs.
Airpark East-Highland	Industrial	Piedmont Triad		145	1,081	-	301	145	1,382	1,527	481	1990	5-40 yrs.
Airpark East-Inacom Building	Office	Piedmont Triad		265	-	270	938	535	938	1,473	321	1996	5-40 yrs.
Airpark East-Service Center 1	Industrial	Piedmont Triad		237	1,103	-	114	237	1,217	1,454	483	1985	5-40 yrs.
Airpark East-Service Center 2	Industrial	Piedmont Triad		192	946	-	339	192	1,285	1,477	485	1985	5-40 yrs.
Airpark East-Service Center 3	Industrial	Piedmont Triad		305	1,219	-	158	305	1,377	1,682	556	1985	5-40 yrs.
Airpark East-Service Center 4	Industrial	Piedmont Triad		225	928	-	65	225	993	1,218	401	1985	5-40 yrs.
Airpark East-Service Court	Industrial	Piedmont Triad		171	777	-	164	171	941	1,112	367	1990	5-40 yrs.
Airpark East-Simplex	Office	Piedmont Triad		271	-	239	892	510	892	1,402	365	1997	5-40 yrs.
Airpark East-Warehouse 1	Industrial	Piedmont Triad		356	1,613	-	293	356	1,906	2,262	799	1985	5-40 yrs.
Airpark East-Warehouse 2	Industrial	Piedmont Triad		374	1,523	-	334	374	1,857	2,231	688	1985	5-40 yrs.
Airpark East-Warehouse 3	Industrial	Piedmont Triad		341	1,486	-	530	341	2,016	2,357	862	1986	5-40 yrs.
Airpark East-Warehouse 4	Industrial	Piedmont Triad		659	2,676	-	760	659	3,436	4,095	1,350	1988	5-40 yrs.

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SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Land	Bldg & Improv	Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
						Land	Bldg & Improv	Land	Bldg & Improv				
Airpark North - DC1	Industrial	Piedmont Triad		860	2,919	-	494	860	3,413	4,273	1,505	1986	5-40 yrs.
Airpark North - DC2	Industrial	Piedmont Triad		1,302	4,392	-	703	1,302	5,095	6,397	2,150	1987	5-40 yrs.
Airpark North - DC3	Industrial	Piedmont Triad		450	1,517	-	672	450	2,189	2,639	780	1988	5-40 yrs.
Airpark North - DC4	Industrial	Piedmont Triad		452	1,514	-	148	452	1,662	2,114	684	1988	5-40 yrs.
Airpark South Warehouse 1	Industrial	Piedmont Triad		546	-	-	2,591	546	2,591	3,137	928	1998	5-40 yrs.
Airpark South Warehouse 2	Industrial	Piedmont Triad		749	-	-	2,509	749	2,509	3,258	725	1999	5-40 yrs.
Airpark South Warehouse 3	Industrial	Piedmont Triad		603	-	-	2,273	603	2,273	2,876	615	1999	5-40 yrs.
Airpark South Warehouse 4	Industrial	Piedmont Triad		499	-	-	2,073	499	2,073	2,572	599	1999	5-40 yrs.
Airpark South Warehouse 6	Industrial	Piedmont Triad		1,733	-	-	5,394	1,733	5,394	7,127	2,341	1999	5-40 yrs.
Airpark West 1	Office	Piedmont Triad		944	3,831	-	1,011	944	4,842	5,786	1,784	1984	5-40 yrs.
Airpark West 2	Office	Piedmont Triad		887	3,550	-	497	887	4,047	4,934	1,667	1985	5-40 yrs.
Airpark West 4	Office	Piedmont Triad		227	907	-	388	227	1,295	1,522	539	1985	5-40 yrs.
Airpark West 5	Office	Piedmont Triad		243	971	-	221	243	1,192	1,435	479	1985	5-40 yrs.
Airpark West 6	Office	Piedmont Triad		327	1,309	-	811	327	2,120	2,447	728	1985	5-40 yrs.
Brigham Road - Land Consolidated Center/ Building I	Industrial Office	Piedmont Triad		7,059	-	(3,720)	-	3,339	-	3,339	-	N/A	N/A
Consolidated Center/ Building II	Office	Piedmont Triad		625	2,183	(235)	306	390	2,489	2,879	1,143	1983	5-40 yrs.
Consolidated Center/ Building III	Office	Piedmont Triad		625	4,435	(203)	(963)	422	3,472	3,894	1,610	1983	5-40 yrs.
Consolidated Center/ Building IV	Office	Piedmont Triad		680	3,572	(217)	(963)	463	2,609	3,072	1,189	1989	5-40 yrs.
Deep River Corporate Center	Office	Piedmont Triad		376	1,655	(123)	(348)	253	1,307	1,560	614	1989	5-40 yrs.
Enterprise Warehouse I	Industrial	Piedmont Triad		1,041	5,892	-	1,106	1,041	6,998	8,039	2,427	1989	5-40 yrs.
Enterprise Warehouse II	Industrial	Piedmont Triad		453	-	360	2,873	813	2,873	3,686	701	2002	5-40 yrs.
Enterprise Warehouse III	Industrial	Piedmont Triad		2,733	-	881	12,337	3,614	12,337	15,951	2,023	2006	5-40 yrs.
Forsyth Corporate Center	Office	Piedmont Triad		814	-	-	3,589	814	3,589	4,403	275	2007	5-40 yrs.
				329	1,867	-	1,031	329	2,898	3,227	1,268	1985	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
Highwoods Park Building I	Office	Piedmont Triad		1,476	-	-	8,501	1,476	8,501	9,977	2,525	2001	5-40 yrs.
Jefferson Pilot Land	Office	Piedmont Triad		11,759	-	(4,311)	-	7,448	-	7,448	-	N/A	N/A
Regency One-Piedmont Center	Industrial	Piedmont Triad		515	-	383	2,357	898	2,357	3,255	804	1996	5-40 yrs.
Regency Two-Piedmont Center	Industrial	Piedmont Triad		435	-	288	2,153	723	2,153	2,876	677	1996	5-40 yrs.
7023 Albert Pick	Office	Piedmont Triad	(1)	834	3,459	-	435	834	3,894	4,728	1,487	1989	5-40 yrs.
The Knollwood -380 Retail	Office	Piedmont Triad		-	1	-	252	-	253	253	152	1995	5-40 yrs.
The Knollwood-370	Office	Piedmont Triad		1,826	7,495	-	933	1,826	8,428	10,254	3,249	1994	5-40 yrs.
The Knollwood-380	Office	Piedmont Triad		2,989	12,028	-	2,898	2,989	14,926	17,915	6,121	1990	5-40 yrs.
US Airways	Office	Piedmont Triad		1,450	11,375	-	1,000	1,450	12,375	13,825	4,097	1970-1987	5-40 yrs.
Westpoint Business Park-Luwabahnson	Office	Piedmont Triad		347	1,389	-	97	347	1,486	1,833	571	1990	5-40 yrs.
Raleigh, NC													
3600 Glenwood Avenue	Office	Raleigh		-	10,994	-	3,075	-	14,069	14,069	4,096	1986	5-40 yrs.
3737 Glenwood Avenue	Office	Raleigh		-	-	318	14,739	318	14,739	15,057	4,435	1999	5-40 yrs.
4101 Research Commons	Office	Raleigh		1,348	8,346	220	(1,453)	1,568	6,893	8,461	2,398	1999	5-40 yrs.
4201 Research Commons	Office	Raleigh		1,204	11,858	-	(2,949)	1,204	8,909	10,113	3,402	1991	5-40 yrs.
4301 Research Commons	Office	Raleigh		900	8,237	-	1,114	900	9,351	10,251	3,908	1989	5-40 yrs.
4401 Research Commons	Office	Raleigh		1,249	9,387	-	2,018	1,249	11,405	12,654	4,375	1987	5-40 yrs.
4501 Research Commons	Office	Raleigh		785	5,856	-	1,791	785	7,647	8,432	3,045	1985	5-40 yrs.
4800 North Park	Office	Raleigh		2,678	17,630	-	8,519	2,678	26,149	28,827	10,503	1985	5-40 yrs.
4900 North Park	Office	Raleigh	397	770	1,983	-	553	770	2,536	3,306	1,152	1984	5-40 yrs.
5000 North Park	Office	Raleigh		1,010	4,612	(49)	2,444	961	7,056	8,017	3,264	1980	5-40 yrs.
801 Corporate Center	Office	Raleigh	(5)	828	-	272	10,263	1,100	10,263	11,363	2,876	2002	5-40 yrs.
Blue Ridge I	Office	Raleigh	(1)	722	4,606	-	1,344	722	5,950	6,672	2,732	1982	5-40 yrs.
Blue Ridge II	Office	Raleigh	(1)	462	1,410	-	374	462	1,784	2,246	977	1988	5-40 yrs.
Cape Fear	Office	Raleigh		131	1,630	-	787	131	2,417	2,548	2,073	1979	5-40 yrs.
Catawba	Office	Raleigh		125	1,635	-	2,386	125	4,021	4,146	2,474	1980	5-40 yrs.
CentreGreen One - Weston	Office	Raleigh	(4)	1,529	-	(378)	8,570	1,151	8,570	9,721	2,043	2000	5-40 yrs.
CentreGreen Two - Weston	Office	Raleigh	(4)	1,653	-	(389)	8,950	1,264	8,950	10,214	2,292	2001	5-40 yrs.
CentreGreen Three Land - Weston	Office	Raleigh		1,876	-	(384)	-	1,492	-	1,492	-	N/A	N/A
CentreGreen Four	Office	Raleigh	(4)	1,779	-	(397)	10,674	1,382	10,674	12,056	3,037	2002	5-40 yrs.
CentreGreen Five	Office	Raleigh		1,280	-	69	12,657	1,349	12,657	14,006	1,231	2008	5-40 yrs.
Cottonwood	Office	Raleigh		609	3,244	-	1,237	609	4,481	5,090	2,155	1983	5-40 yrs.
Dogwood	Office	Raleigh		766	2,769	-	524	766	3,293	4,059	1,436	1983	5-40 yrs.
EPA	Office	Raleigh		2,597	-	-	1,661	2,597	1,661	4,258	707	2003	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period			Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Improv	Total Assets			
GlenLake Land	Office	Raleigh		13,003	-	(4,900)	134	8,103	134	8,237	28	N/A	N/A
GlenLake Bldg I	Office	Raleigh	(4)	924	-	1,324	21,752	2,248	21,752	24,000	5,332	2002	5-40 yrs.
GlenLake Four	Office	Raleigh	(5)	1,659	-	493	22,357	2,152	22,357	24,509	3,503	2006	5-40 yrs.
GlenLake Six	Office	Raleigh		941	-	16	22,018	957	22,018	22,975	1,702	2008	5-40 yrs.
Healthsource	Office	Raleigh	(5)	1,304	-	540	13,655	1,844	13,655	15,499	5,449	1996	5-40 yrs.
Highwoods Centre-Weston	Office	Raleigh	(1)	531	-	(267)	8,682	264	8,682	8,946	2,364	1998	5-40 yrs.
Highwoods Office Center North Land	Office	Raleigh		357	49	-	-	357	49	406	28	N/A	N/A
Highwoods Tower One	Office	Raleigh		203	16,744	-	3,488	203	20,232	20,435	9,623	1991	5-40 yrs.
Highwoods Tower Two	Office	Raleigh		365	-	503	20,829	868	20,829	21,697	4,651	2001	5-40 yrs.
Inveresk Land Parcel 2	Office	Raleigh		657	-	197	-	854	-	854	-	N/A	N/A
Inveresk Land Parcel 3	Office	Raleigh		548	-	306	-	854	-	854	-	N/A	N/A
Maplewood	Office	Raleigh	(1)	149	-	107	3,335	256	3,335	3,591	940	2001	5-40 yrs.
Overlook	Office	Raleigh		398	-	293	9,402	691	9,402	10,093	2,912	1999	5-40 yrs.
Pamlico	Office	Raleigh		289	-	-	13,612	289	13,612	13,901	8,333	1980	5-40 yrs.
ParkWest One - Weston	Office	Raleigh		242	-	-	3,430	242	3,430	3,672	849	2001	5-40 yrs.
ParkWest Two - Weston	Office	Raleigh		356	-	-	4,292	356	4,292	4,648	1,382	2001	5-40 yrs.
ParkWest Three - Land - Weston	Office	Raleigh		306	-	-	-	306	-	306	-	N/A	N/A
Progress Center Renovation	Office	Raleigh		-	-	-	362	-	362	362	160	2003	5-40 yrs.
Raleigh Corp Center Lot D	Office Mixed-Use	Raleigh		1,211	-	8	-	1,219	-	1,219	-	N/A	N/A
RBC Plaza	Office	Raleigh	46,662	1,206	-	-	70,710	1,206	70,710	71,916	4,922	2008	5-40 yrs.
Rexwoods Center I	Office	Raleigh		878	3,730	-	1,116	878	4,846	5,724	2,430	1990	5-40 yrs.
Rexwoods Center II	Office	Raleigh		362	1,818	-	617	362	2,435	2,797	1,136	1993	5-40 yrs.
Rexwoods Center III	Office	Raleigh		919	2,816	-	722	919	3,538	4,457	1,651	1992	5-40 yrs.
Rexwoods Center IV	Office	Raleigh		586	-	-	3,449	586	3,449	4,035	1,355	1995	5-40 yrs.
Rexwoods Center V	Office	Raleigh		1,301	-	184	5,190	1,485	5,190	6,675	1,661	1998	5-40 yrs.
Riverbirch	Office	Raleigh		469	4,038	(469)	(3,828)	-	210	210	-	1987	5-40 yrs.
Situs I	Office	Raleigh		692	4,646	178	(1,154)	870	3,492	4,362	1,185	1996	5-40 yrs.
Situs II	Office	Raleigh		718	6,254	181	(1,288)	899	4,966	5,865	1,571	1998	5-40 yrs.
Situs III	Office	Raleigh		440	4,078	119	(1,008)	559	3,070	3,629	800	2000	5-40 yrs.
Six Forks Center I	Office	Raleigh		666	2,665	-	1,316	666	3,981	4,647	1,659	1982	5-40 yrs.
Six Forks Center II	Office	Raleigh		1,086	4,533	-	1,492	1,086	6,025	7,111	2,397	1983	5-40 yrs.
Six Forks Center III	Office	Raleigh		862	4,411	-	2,228	862	6,639	7,501	2,690	1987	5-40 yrs.
Smoketree Tower	Office	Raleigh		2,353	11,743	-	3,227	2,353	14,970	17,323	6,138	1984	5-40 yrs.
Sycamore	Office	Raleigh		255	-	217	5,184	472	5,184	5,656	1,637	1997	5-40 yrs.
Weston Land	Office Mixed-Use	Raleigh		22,771	-	(7,169)	-	15,602	-	15,602	-	N/A	N/A
Willow Oak	Office	Raleigh		458	-	268	5,154	726	5,154	5,880	1,908	1995	5-40 yrs.
Other Property	Other	Raleigh		48	9,496	720	4,834	768	14,330	15,098	7,236	N/A	N/A
Richmond, VA													
4900 Cox Road	Office	Richmond		1,324	5,311	-	2,921	1,324	8,232	9,556	2,801	1991	5-40 yrs.
Colonnade Building	Office	Richmond	(4)	1,364	6,105	-	747	1,364	6,852	8,216	1,554	2003	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
Dominion Place - Pitts Parcel	Office	Richmond		1,101	-	(332)	-	769	-	769	-	N/A	N/A
Essex Plaza	Office	Richmond	10,717	1,581	13,299	-	(1,849)	1,581	11,450	13,031	3,096	1999	5-40 yrs.
Grove Park I	Office	Richmond		713	-	319	5,213	1,032	5,213	6,245	1,656	1997	5-40 yrs.
Hamilton Beach	Office	Richmond		1,086	4,345	-	1,969	1,086	6,314	7,400	2,450	1986	5-40 yrs.
Highwoods Commons	Office	Richmond		521	-	446	3,319	967	3,319	4,286	1,084	1999	5-40 yrs.
Highwoods One	Office	Richmond		1,688	-	-	10,984	1,688	10,984	12,672	3,631	1996	5-40 yrs.
Highwoods Two	Office	Richmond	(4)	786	-	213	6,026	999	6,026	7,025	1,968	1997	5-40 yrs.
Highwoods Five	Office	Richmond		783	-	-	5,544	783	5,544	6,327	1,804	1998	5-40 yrs.
Highwoods Plaza	Office	Richmond		909	-	176	5,644	1,085	5,644	6,729	1,347	2000	5-40 yrs.
Innsbrooke Centre	Office	Richmond	5,079	1,300	6,958	(144)	(414)	1,156	6,544	7,700	1,079	1987	5-40 yrs.
Innslake Center	Office	Richmond	(1)	845	-	195	5,386	1,040	5,386	6,426	1,237	2001	5-40 yrs.
Liberty Mutual	Office	Richmond		1,205	4,825	-	839	1,205	5,664	6,869	2,091	1990	5-40 yrs.
Markel American	Office	Richmond	8,447	1,300	13,259	72	(4,617)	1,372	8,642	10,014	1,547	1998	5-40 yrs.
Markel Plaza	Office	Richmond	10,717	1,700	17,081	(386)	(5,389)	1,314	11,692	13,006	2,015	1989	5-40 yrs.
North Park	Office	Richmond		2,163	8,659	(14)	1,964	2,149	10,623	12,772	4,126	1989	5-40 yrs.
North Shore Commons A	Office	Richmond	(4)	951	-	-	11,469	951	11,469	12,420	3,483	2002	5-40 yrs.
North Shore Commons B - Land	Office	Richmond	(4)	2,067	-	(103)	11,513	1,964	11,513	13,477	1,595	N/A	N/A
North Shore Commons C - Land	Office	Richmond		1,497	-	-	-	1,497	-	1,497	-	N/A	N/A
North Shore Commons D - Land	Office	Richmond		1,261	-	-	-	1,261	-	1,261	-	N/A	N/A
Nucklos Corner Land	Office	Richmond		1,259	-	-	-	1,259	-	1,259	-	N/A	N/A
One Shockoe Plaza	Office	Richmond		-	-	356	15,143	356	15,143	15,499	5,874	1996	5-40 yrs.
Pavilion Land	Office	Richmond		181	46	20	(46)	201	-	201	-	N/A	N/A
Rhodia Building	Office	Richmond		1,600	8,864	-	3	1,600	8,867	10,467	2,283	1996	5-40 yrs.
Sadler & Cox Land	Office	Richmond		1,535	-	-	-	1,535	-	1,535	-	N/A	N/A
Saxon Capital Building	Office	Richmond	(4)	1,918	-	337	13,550	2,255	13,550	15,805	2,988	2005	5-40 yrs.
Stony Point F Land	Office	Richmond		1,841	-	-	-	1,841	-	1,841	-	N/A	N/A
Stony Point I	Office	Richmond	(4)	1,384	11,630	59	2,010	1,443	13,640	15,083	4,426	1990	5-40 yrs.
Stony Point II	Office	Richmond		1,240	-	-	11,594	1,240	11,594	12,834	3,338	1999	5-40 yrs.
Stony Point III	Office	Richmond	(4)	995	-	-	9,664	995	9,664	10,659	2,947	2002	5-40 yrs.
Stony Point IV	Office	Richmond		955	-	-	11,644	955	11,644	12,599	2,178	2006	5-40 yrs.
Technology Park 1	Office	Richmond		541	2,166	-	270	541	2,436	2,977	936	1991	5-40 yrs.
Technology Park 2	Office	Richmond		264	1,058	-	114	264	1,172	1,436	442	1991	5-40 yrs.
Vantage Place A	Office	Richmond	(4)	203	811	-	224	203	1,035	1,238	436	1987	5-40 yrs.
Vantage Place B	Office	Richmond	(4)	233	931	-	194	233	1,125	1,358	439	1988	5-40 yrs.
Vantage Place C	Office	Richmond	(4)	235	940	-	288	235	1,228	1,463	472	1987	5-40 yrs.
Vantage Place D	Office	Richmond	(4)	218	873	-	243	218	1,116	1,334	406	1988	5-40 yrs.
Vantage Pointe	Office	Richmond	(4)	1,089	4,500	-	947	1,089	5,447	6,536	2,163	1990	5-40 yrs.
Virginia Mutual	Office	Richmond		1,301	6,036	-	383	1,301	6,419	7,720	1,660	1996	5-40 yrs.
Waterfront Plaza	Office	Richmond		585	2,347	-	911	585	3,258	3,843	1,296	1988	5-40 yrs.
West Shore I	Office	Richmond	(1)	332	1,431	-	313	332	1,744	2,076	671	1995	5-40 yrs.
West Shore II	Office	Richmond	(1)	489	2,181	-	384	489	2,565	3,054	908	1995	5-40 yrs.
West Shore III	Office	Richmond	(1)	961	-	141	4,247	1,102	4,247	5,349	1,309	1997	5-40 yrs.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

Description	Segment Type	City	2010 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period			Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
				Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets			
South Florida													
The 1800 Eller Drive Building	Office	South Florida		-	9,851	-	2,098	-	11,949	11,949	4,480	1983	5-40 yrs.
Tampa, FL													
380 Park Place	Office	Tampa		1,502	-	240	6,624	1,742	6,624	8,366	1,600	2001	5-40 yrs.
4200 Cypress	Office	Tampa		2,673	16,470	-	101	2,67	16,571	19,244	997	1989	5-40 yrs.
Anchor Glass	Office	Tampa		1,281	11,318	-	1,732	1,281	13,050	14,331	4,489	1988	5-40 yrs.
Avion Park Land	Office	Tampa		5,237	-	-	1,487	5,237	1,487	6,724	83	N/A	N/A
Bayshore	Office	Tampa		2,276	11,817	-	1,116	2,276	12,933	15,209	4,423	1990	5-40 yrs.
FBI Field Office	Office	Tampa	(5)	4,054	-	406	27,241	4,460	27,241	31,701	4,600	2005	5-40 yrs.
Feathersound Corporate Center II	Office	Tampa		802	7,46	-	1,959	802	9,422	10,224	3,142	1986	5-40 yrs.
Harborview Plaza	Office	Tampa	21,502	3,537	29,944	969	(454)	4,506	29,490	33,996	10,044	2001	5-40 yrs.
Highwoods Preserve I	Office	Tampa	(5)	991	-	-	22,192	991	22,192	23,183	6,113	1999	5-40 yrs.
Highwoods Preserve Land	Office	Tampa		1,485	-	485	-	1,970	-	1,970	-	N/A	N/A
Highwoods Preserve V	Office	Tampa	(5)	881	-	-	27,263	881	27,263	28,144	8,096	2001	5-40 yrs.
HIW Bay Center I	Office	Tampa		3,565	-	(64)	37,558	3,501	37,558	41,059	4,440	2007	5-40 yrs.
HIW Bay Center II	Office	Tampa		3,482	-	-	-	3,482	-	3,482	-	N/A	N/A
HIW Preserve VII	Office	Tampa		790	-	-	12,513	790	12,513	13,303	1,161	2007	5-40 yrs.
HIW Preserve VII Garage	Office	Tampa		-	-	-	6,789	-	6,789	6,789	665	2007	5-40 yrs.
Horizon	Office	Tampa		-	6,257	-	2,414	-	8,671	8,671	3,187	1980	5-40 yrs.
LakePointe I	Office	Tampa		2,106	89	-	35,301	2,106	35,390	37,496	11,465	1986	5-40 yrs.
LakePointe II	Office	Tampa		2,000	15,848	672	7,197	2,672	23,045	25,717	6,782	1999	5-40 yrs.
Lakeside	Office	Tampa		-	7,369	-	1,747	-	9,116	9,116	3,233	1978	5-40 yrs.
Lakeside/Parkside Garage	Office	Tampa		-	-	-	3,224	-	3,224	3,224	497	2004	5-40 yrs.
One Harbour Place	Office	Tampa		2,016	25,252	-	5,163	2,016	30,415	32,431	8,604	1985	5-40 yrs.
Parkside	Office	Tampa		-	9,407	-	3,513	-	12,920	12,920	4,804	1979	5-40 yrs.
Pavilion	Office	Tampa		-	16,394	-	2,117	-	18,511	18,511	6,086	1982	5-40 yrs.
Pavilion Parking Garage	Office	Tampa		-	-	-	5,600	-	5,600	5,600	1,568	1999	5-40 yrs.
Spectrum	Office	Tampa		1,454	14,502	-	5,450	1,454	19,952	21,406	6,293	1984	5-40 yrs.
Tower Place	Office	Tampa	(5)	3,218	19,898	-	2,534	3,218	22,432	25,650	8,605	1988	5-40 yrs.
Westshore Square	Office	Tampa		1,126	5,186	-	476	1,126	5,662	6,788	1,801	1976	5-40 yrs.
Independence Park Land	Office	Tampa		4,943	-	-	-	4,943	-	4,943	-	N/A	N/A
Independence Park	Office	Tampa		2,531	4,526	-	-	2,531	4,526	7,057	10	1983	5-40 yrs.
				9,058	1,347,397	(21,315)	548,402	457,743	2,895,799	3,353,542	835,165		

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

(in thousands)

2010 Encumbrance Notes

- (1) These assets are pledged as collateral for a \$128,084,000 first mortgage loan.
- (2) These assets are pledged as collateral for a \$52,109,000 first mortgage loan.
- (3) These assets are pledged as collateral for a \$186,038,000 first mortgage loan.
- (4) These assets are pledged as collateral for a \$123,359,000 first mortgage loan.
- (5) These assets are pledged as collateral for a \$113,386,000 first mortgage loan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Raleigh, State of North Carolina, on February 9, 2011.

HIGHWOODS PROPERTIES, INC.

By: /s/ EDWARD J. FRITSCH
Edward J. Fritsch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ O. Temple Sloan, Jr.</u> O. Temple Sloan, Jr.	Chairman of the Board of Directors	February 9, 2011
<u>/s/ Edward J. Fritsch</u> Edward J. Fritsch	President, Chief Executive Officer and Director	February 9, 2011
<u>/s/ Thomas W. Adler</u> Thomas W. Adler	Director	February 9, 2011
<u>/s/ Gene H. Anderson</u> Gene H. Anderson	Director	February 9, 2011
<u>/s/ David J. Hartzell</u> David J. Hartzell	Director	February 9, 2011
<u>/s/ Lawrence S. Kaplan</u> Lawrence S. Kaplan	Director	February 9, 2011
<u>/s/ Sherry A. Kellett</u> Sherry A. Kellett	Director	February 9, 2011
<u>/s/ L. Glenn Orr, Jr.</u> L. Glenn Orr, Jr.	Director	February 9, 2011
<u>/s/ Terry L. Stevens</u> Terry L. Stevens	Senior Vice President and Chief Financial Officer	February 9, 2011
<u>/s/ Daniel L. Clemmens</u> Daniel L. Clemmens	Vice President and Chief Accounting Officer	February 9, 2011

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Raleigh, State of North Carolina, on February 9, 2011.

HIGHWOODS REALTY LIMITED PARTNERSHIP

By: Highwoods Properties, Inc., its sole general partner

By: /s/ EDWARD J. FRITSCH

Edward J. Fritsch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ O. Temple Sloan, Jr.</u> O. Temple Sloan, Jr.	Chairman of the Board of Directors of the General Partner	February 9, 2011
<u>/s/ Edward J. Fritsch</u> Edward J. Fritsch	President, Chief Executive Officer and Director of the General Partner	February 9, 2011
<u>/s/ Thomas W. Adler</u> Thomas W. Adler	Director of the General Partner	February 9, 2011
<u>/s/ Gene H. Anderson</u> Gene H. Anderson	Director of the General Partner	February 9, 2011
<u>/s/ David J. Hartzell</u> David J. Hartzell	Director of the General Partner	February 9, 2011
<u>/s/ Lawrence S. Kaplan</u> Lawrence S. Kaplan	Director of the General Partner	February 9, 2011
<u>/s/ Sherry A. Kellett</u> Sherry A. Kellett	Director of the General Partner	February 9, 2011
<u>/s/ L. Glenn Orr, Jr.</u> L. Glenn Orr, Jr.	Director of the General Partner	February 9, 2011
<u>/s/ Terry L. Stevens</u> Terry L. Stevens	Senior Vice President and Chief Financial Officer of the General Partner	February 9, 2011
<u>/s/ Daniel L. Clemmens</u> Daniel L. Clemmens	Vice President and Chief Accounting Officer of the General Partner	February 9, 2011

**AMENDMENT NO. 1 TO THE
HIGHWOODS PROPERTIES, INC.
AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN**

This Amendment No. 1 (this "Amendment"), dated as of November 30, 2010, is hereby made to the Amended and Restated Employee Stock Purchase Plan (the "Plan") of Highwoods Properties, Inc. (the "Company").

WHEREAS, the Board has delegated to the Committee its powers with respect to administration of the Plan as permitted by Section 6 hereof; and

WHEREAS, the Committee has the power to amend the Plan without the consent of any other person so long as such amendment (1) does not materially and adversely affect any outstanding Option and (2) is not a "material revision" to the Plan as such term is defined by Section 303A.08 of the New York Stock Exchange Listed Company Manual (or any successor rule); and

WHEREAS, after having made a reasonable determination that the Amendment meets the criteria for adoption and approval without the consent of any other person, the Committee has approved and adopted this Amendment.

NOW, THEREFORE, the Plan is hereby amended as follows:

**SECTION 1
DEFINED TERMS**

The capitalized terms used herein shall have the meanings ascribed thereto in the Plan, except as otherwise defined or limited herein.

**SECTION 2
EFFECTIVE TIME OF THE AMENDMENT**

The Amendment shall become effective as of January 1, 2011.

**SECTION 3
AMENDMENT OF SECTION 2(P)**

Section 2(p) of the Plan is hereby amended and restated in its entirety as follows:

(p) " Option Price " means 85% of the Fair Market Value per share of Common Stock on the applicable Exercise Date.

Except as amended by this Amendment, the Plan is hereby ratified and confirmed in all other respects and shall otherwise remain unmodified and in full force and effect.



TERM LOAN AGREEMENT

Dated as of February 2, 2011

among

**HIGHWOODS PROPERTIES, INC.,
HIGHWOODS SERVICES, INC.**

and

HIGHWOODS REALTY LIMITED PARTNERSHIP,
as Borrowers,

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent,

WELLS FARGO SECURITIES, LLC,
as Sole Lead Arranger and Sole Bookrunner,

**BRANCH BANKING AND TRUST COMPANY,
PNC BANK, NATIONAL ASSOCIATION,
REGIONS BANK**

and

U.S. BANK NATIONAL ASSOCIATION,
as Documentation Agents,

and

The Other Lenders Party Hereto

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TERM LOAN AGREEMENT

This TERM LOAN AGREEMENT (“Agreement”) is entered into as of February 2, 2011, among HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership (“Highwoods Realty”), HIGHWOODS PROPERTIES, INC., a Maryland corporation (“Highwoods Properties”) and HIGHWOODS SERVICES, INC., a North Carolina corporation (“Highwoods Services”) (Highwoods Realty, Highwoods Properties and Highwoods Services are hereinafter referred to individually as a “Borrower” and collectively as the “Borrowers”), each lender from time to time party hereto (collectively, the “Lenders” and individually, a “Lender”), WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent (the “Administrative Agent”), BRANCH BANKING AND TRUST COMPANY, PNC BANK, NATIONAL ASSOCIATION, REGIONS BANK and U.S. BANK NATIONAL ASSOCIATION, as Documentation Agents (the “Documentation Agents”), and WELLS FARGO SECURITIES, LLC, as Sole Arranger and Sole Bookrunner (the “Arranger”).

WHEREAS, the Borrowers have requested that the Lenders make available to the Borrowers term loans in an aggregate amount of \$200,000,000; and

WHEREAS, the Lenders are willing to do so on the terms and conditions set forth herein.

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 as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms; Accounting Treatment; Borrowers’ Agent and Liabilities.

As used in this Agreement, the following terms shall have the meanings set forth below:

“Acquired Properties” means, at any time, all Properties acquired by the Subject Parties within the previous three (3) calendar months from any third party entity through an arms length transaction.

“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 (i) any amount for such period attributable to the Straight-Lining of Rents and (ii) the amount (if any) of amortization of capitalized lease incentive costs which is recorded as a reduction of revenues under GAAP for any specified period.

“Adjusted NOI” means, with respect to any applicable time period for any Property, an amount, not less than zero (0), equal to (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 amount for such period attributable to the Straight-Lining of Rents and the amount (if any) of amortization of capitalized lease incentive costs which is recorded as a reduction of revenues under GAAP for any specified period; provided, further, that, in each case, all amounts included in the above calculations with respect to Properties owned by Unconsolidated Affiliates (and not otherwise adjusted for interests in Unconsolidated Affiliates) shall be adjusted to include only that portion of such amounts attributable to Unconsolidated Affiliate Interests.

“Administrative Agent” means Wells Fargo Bank, National Association in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Administrative Agent’s Office” means the Administrative Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as the Administrative Agent may from time to time notify the Borrowers and the Lenders.

“ Administrative Questionnaire ” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“ Affiliate ” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. In no event shall the Administrative Agent or any Lender be deemed to be an Affiliate of any of the Borrowers.

“ Aggregate Commitments ” means the Commitments of all the Lenders. The Aggregate Commitments on the Closing Date shall be \$200,000,000.

“ Agreement ” means this Agreement, as it may be amended, restated, supplemented or otherwise modified from time to time.

“ Annualized Adjusted NOI ” means (a) for each Property owned for twelve (12) months or more, Adjusted NOI for such Property for the immediately preceding twelve (12) month period; (b) for each Property owned for a period of less than twelve (12) months and for each Property formerly qualifying as a Non-Income Producing Property that has been an Income-Producing Property for less than twelve (12) months, Adjusted NOI for such Property calculated by annualizing acquisition-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; provided, that all amounts included in the above calculations with respect to Properties owned by Unconsolidated Affiliates (and not otherwise adjusted for interests in Unconsolidated Affiliates) shall be adjusted to include only that portion of such amounts attributable to Unconsolidated Affiliate Interests.

“ Applicable Percentage ” means with respect to any Lender at any time, the percentage (carried out to the ninth decimal place) of the aggregate outstanding principal balance of the Loans represented by such Lender’s Loan at such time.

“ Applicable Rate ” 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 Credit Rating then in effect:

Pricing Level	Credit Rating	Applicable Rate
I	BBB+/ Baa1 or higher	1.80%
II	BBB/ Baa2	2.00%
III	BBB-/ Baa3	2.20%
IV	Lower than BBB-/Baa3	2.95%

The Applicable Rate shall be adjusted as of the first day of the first calendar month immediately following any change in the Credit Rating. The Principal Borrower shall notify the Administrative Agent in writing promptly after becoming aware of any change in the Credit Rating.

“ Approved Fund ” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“ Arranger ” means Wells Fargo Securities, LLC in its capacity as sole lead arranger and sole book runner.

“ Assignee Group ” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“ Assignment and Assumption ” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit F or any other form approved by the Administrative Agent.

“ Attributable Indebtedness ” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“ Audited Financial Statements ” means the audited consolidated balance sheet of Highwoods Properties and its Subsidiaries for the fiscal year ended December 31, 2009, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of the Highwoods Properties and its Subsidiaries, including the notes thereto.

“ Base Rate ” means, the Eurodollar Market Index Rate; provided, that if for any reason the Eurodollar Market Index Rate is unavailable, Base Rate shall mean the per annum rate of interest equal to the Federal Funds Rate plus one and one-half of one percent (1.50%).

“ Base Rate Loan ” means any portion of a Loan that bears interest based on the Base Rate.

“ Borrower ” and “ Borrowers ” have the meanings specified in the introductory paragraph hereto.

“ Borrower Materials ” has the meaning specified in Section 6.02.

“ Borrowing ” means the making of the Loans on the Closing Date pursuant to Section 2.01.

“ Business Day ” means (a) a day of the week (but not a Saturday, Sunday or holiday) on which the offices of the Administrative Agent in San Francisco, California are open to the public for carrying on substantially all of the Administrative Agent’s business functions, and (b) if such day relates to a Eurodollar Rate Loan, any such day that is also a day on which dealings in Dollars are carried on in the London interbank market. Unless specifically referenced in this Agreement as a Business Day, all references to “days” shall be to calendar days.

“ 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 6.02.

“ Capital Expenditure Reserve ” means, with respect to (a) any office, industrial, retail or other non-multi family Property that is an Income-Producing Property or a Non-Income Producing Property for which a certificate of occupancy has been issued, a normalized annual reserve for replacement reserves, capital expenditures, tenant improvements, and leasing commissions in the amount of \$0.50 per year per square foot of net leaseable area contained in such Property (pro rated for the portion of such year that the applicable Property qualifies under this clause (a)), (b) any multi-family Property that is an Income-Producing Property or a Non-Income Producing Property for which a certificate of occupancy has been issued, a normalized annual reserve for replacement reserves, capital expenditures, tenant improvements, and leasing commissions in the amount of \$250 per year per unit and (c) any other Non-Income Producing Property, zero (0); provided, that all amounts included in the above calculations with respect to Properties owned by Unconsolidated Affiliates (and not otherwise adjusted for interests in Unconsolidated Affiliates) shall be adjusted to include only that portion of such amounts attributable to Unconsolidated Affiliate Interests. 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.

“ Capitalization Rate ” means nine percent (9.00%), except with respect to calculations involving the Adjusted NOI related to the CC Plaza Project, in which case the “Capitalization Rate” shall be eight percent (8.00%); provided, however, that (a) the Capitalization Rate (both generally and for the CC Plaza Project) shall be reviewed annually and shall be subject to an annual adjustment of not more than one quarter of one percent (0.25%) by the Supermajority Lenders in their sole discretion based upon market conditions for comparable property types and (b) no adjustment pursuant to the foregoing clause (a) shall occur until on or after the date occurring one (1) year following the Closing Date and, following any such adjustment, no further adjustment to the Capitalization Rate shall occur until the passage of one (1) year following such adjustment; provided, that to the extent any adjustment in the Capitalization Rate is the cause of a Default hereunder (and such Default would not have occurred without such adjustment), the Borrowers shall have the cure period referenced in Section 8.01(b) in which to remedy such default prior to such Default being considered an Event of Default.

“ 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 (12) 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 two hundred seventy (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 (6) 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 Loan 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).

“ CC Plaza Project ” means, to the extent owned (in whole or in part) by any Subject Party, that certain development known as Country Club Plaza located at 310 Ward Parkway, Kansas City Missouri 64112 currently owned by Highwoods Realty.

“ Change in Law ” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

“ Change of Control ” means the occurrence of any of the following events:

(a) 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 thirty-five percent (35.0%) or more of the combined voting power of all Voting Stock of Highwoods Properties, or

(b) during any period of up to twenty-four (24) consecutive months, commencing after the Closing Date, individuals who at the beginning of such twenty-four (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

(c) Highwoods Properties or any Wholly Owned Subsidiary which is a Loan Party shall fail to be the sole general partner of Highwoods Realty or own, directly or indirectly, a majority of the Equity Interests of Highwoods Services. 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.

“Closing Date” means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 10.01.

“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, as to each Lender, its obligation to make a Loan to the Borrowers pursuant to Section 2.01, in an aggregate principal amount not to exceed the amount set forth opposite such Lender’s name on Schedule 2.01.

“Consolidated Parties” means a collective reference to the Principal Borrower and its consolidated Subsidiaries; and “Consolidated Party” means any one of them.

“continue”, “continuation” and “continued” each refers to the continuation of a Eurodollar Rate Loan from one Interest Period to another Interest Period pursuant to Section 2.02.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“convert”, “conversion” and “converted” each refers to the conversion of a Loan of one Type into a Loan of another Type pursuant to Section 2.02.

“Credit Rating” means, with respect to Highwoods Properties (a) at such time that Highwoods Properties maintains an unsecured long term debt rating from either or both of Moody’s and S&P (or one of their respective successors or assigns), the higher of such publicly announced ratings (or such rating if there is only one) for the unsecured long term debt rating of Highwoods Properties or (b) at all other times, the unsecured long term debt rating equivalent to BB+ from S&P and Ba1 from Moody’s.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means a rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus four percent (4.0%) per annum.

“Defaulting Lender” means any Lender that (a) has failed to fund (or has failed, within 3 Business Days after request by the Administrative Agent, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund) any portion of its Loan required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within three Business Days of the date when due, unless such amount is the subject of a good faith dispute, (c) has notified the Borrowers, the Administrative Agent or any other Lender in writing that, or has made a public statement to the effect that, it does not intend to comply with any of its funding obligations under this Agreement, or (d) has become or is (i) insolvent or (ii) the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“Dollar” and “\$” mean lawful money of the United States.

“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 (a) aggregate Net Income during such period, plus (b) an amount which, in the determination of Net Income for such period, has been deducted for (i) Interest Expense, (ii) total federal, state, local and foreign income, franchise, value added and similar taxes and (iii) depreciation and amortization expense, with each of (i), (ii) and (iii) above determined in accordance with GAAP; provided, that, to the extent the above calculations include amounts allocable to Unconsolidated Affiliates, such calculations shall be without duplication and shall only include such amounts to the extent attributable to any Unconsolidated Affiliate Interests.

“Eligible Assignee” means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) subject, in the case of this clause (d) only, to approval by (i) the Administrative Agent and (ii) unless an Event of Default has occurred and is continuing, the Principal Borrower (each such approval under this clause (d) not to be unreasonably withheld or delayed); provided that the Principal Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within 5 Business Days after having received notice thereof; provided, further, that notwithstanding the foregoing, “Eligible Assignee” shall not include any Borrower or any of the Borrowers’ Affiliates or Subsidiaries.

“Environmental Laws” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any of the Borrowers, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“Equity Issuance” means any issuance by the Principal Borrower to any person or entity which is not a Loan Party of (a) shares of its Equity Interests, (b) any shares of its Equity Interests pursuant to the exercise of options or warrants or (c) any shares of its Equity Interests 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 of the Borrowers 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 of the Borrowers 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 any of the Borrowers 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 any of the Borrowers or any ERISA Affiliate.

“Eurodollar Market Index Rate” means, for any day, the Eurodollar Rate as of that day that would be applicable for a Eurodollar Rate Loan having a one-month Interest Period determined at approximately 9:00 a.m. Pacific time for such day (or if such day is not a Business Day, the immediately preceding Business Day). The Eurodollar Market Index Rate shall be determined on a daily basis.

“Eurodollar Rate” means, for the Interest Period for any Eurodollar Rate Loan, the rate of interest, rounded up to the nearest whole multiple of one hundredth of one percent (0.01%), obtained by dividing (i) the rate of interest, rounded upward to the nearest whole multiple of one-hundredth of one percent (0.01%), referred to as the BBA (British Bankers’ Association) LIBOR rate as set forth by any service selected by the Administrative Agent that has been nominated by the British Bankers’ Association as an authorized information vendor for the purpose of displaying such rate for deposits in U.S. Dollars at approximately 9:00 a.m. Pacific time, two (2) Business Days prior to the date of commencement of such Interest Period for purposes of calculating effective rates of interest for loans or obligations making reference thereto, for an amount approximately equal to the applicable Eurodollar Rate Loan and for a period of time approximately equal to such Interest Period by (ii) a percentage equal to 1 minus the stated maximum rate (stated as a decimal) of all reserves, if any, required to be maintained with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”) as specified in Regulation D of the Board of Governors of the Federal Reserve System (or against any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar Rate Loans is determined or any applicable category of extensions of credit or other assets which includes loans by an office of any Lender outside of the United States of America). Any change in such maximum rate shall result in a change in the Eurodollar Rate on the date on which such change in such maximum rate becomes effective.

“Eurodollar Rate Loan” means any portion of a Loan (other than a Base Rate Loan) that bears interest at a rate based on the Eurodollar Rate.

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrowers hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which any of the Borrowers is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrowers under Section 10.13), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrowers with respect to such withholding tax pursuant to Section 3.01(a).

“ Existing Credit Agreement ” means that certain Second Amended and Restated Credit Agreement dated as of December 21, 2009 by and among the Borrowers, the lenders referenced therein, Bank of America, N.A., as administrative agent and the other parties thereto.

“ Existing Term Loan Agreement ” means that certain Term Loan Credit Agreement dated as of February 26, 2008, by and among the Borrowers, Highwoods/Tennessee Holdings, L.P., Highwoods Finance, LLC, the lenders referenced therein, Bank of America, N.A., as administrative agent and the other parties thereto.

“ Federal Funds Rate ” means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal Funds brokers of recognized standing selected by the Administrative Agent.

“ Fee Letter ” means that certain fee letter dated as of December 29, 2010, by and among the Borrowers, the Administrative Agent and the Arranger.

“ FFO ” means, as of any date of determination, Net Income plus depreciation and amortization of real and personal property assets to the extent deducted in the determination of Net Income, less any amount added pursuant to clause (b) of the definition of Net Income except to the extent such amount relates to operating partnership units and is attributable to Highwoods Realty Limited Partnership by virtue of the line item “non-controlling interests,” as shown on the consolidated income statements of the Consolidated Parties.

“ Fixed Charges ” means, for any period, the sum of (a) Interest Expense for the applicable period, plus (b) preferred dividends of the Subject Parties actually paid during the applicable period, plus (c) Scheduled Funded Debt Payments for the applicable period; provided, that, to the extent the above calculations include amounts allocable to Unconsolidated Affiliates, such calculations shall be without duplication and shall only include such amounts to the extent attributable to any Unconsolidated Affiliate Interests.

“ Foreign Lender ” means any Lender that is organized under the laws of a jurisdiction other than that in which the Principal Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“ Foreign Subsidiary ” means any Subsidiary of a Person that is not a Domestic Subsidiary of such Person.

“ FRB ” means the Board of Governors of the Federal Reserve System of the United States.

“ Fully Satisfied ” means, with respect to the Obligations as of any date, that, as of such date, (a) all principal of and interest accrued to such date which constitute Obligations shall have been irrevocably paid in full in cash and (b) all fees, expenses and other amounts then due and payable which constitute Obligations shall have been irrevocably paid in cash.

“ Fund ” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“ 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 clauses (c), (h) and (i) of the definition of “Indebtedness” set forth in this Section 1.01, (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 Guarantees 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 set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“ Governmental Authority ” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“ Guarantee ” means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, (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 or (v) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith; provided, that, to the extent any Guarantee is limited by its terms, then the amount of such Guarantee shall be deemed to be the stated or determinable amount of such Guarantee. The term “Guarantee” as a verb has a corresponding meaning.

“ Guarantors ” means, collectively, as of any date of determination, each Person that has been required, pursuant to the terms of this Agreement and the Guaranty, to execute a counterpart of the Guaranty, in each case to the extent such Person has not been released from its obligations under the Guaranty pursuant to the terms of the Guaranty and this Agreement.

“ Guaranty ” means the Guaranty dated as of the Closing Date made by each of the Domestic Subsidiaries of the Borrowers existing as of the date hereof (except the Non-Guarantor Subsidiaries) in favor of the Administrative Agent and the Lenders, substantially in the form of Exhibit G, as the same may be amended, restated, supplemented or otherwise modified from time to time and as joined from time to time by such Persons that either (a) become, following the date hereof, a Domestic Subsidiary of any Borrower that is not a Non-Guarantor Subsidiary or (b) cease to qualify as a Non-Guarantor Subsidiary following the date hereof.

“Harborview Project” means the certain development known as Harborview located at 3031 N. Rocky Point Drive West, Tampa, Florida 33607 in the SF-HIW Harborview Plaza, LP joint venture.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Highwoods Properties” has the meaning assigned to such term in the introductory paragraph hereof.

“Highwoods Services” has the meaning assigned to such term in the introductory paragraph hereof.

“Highwoods Realty” has the meaning assigned to such term in the introductory paragraph hereof.

“Income Producing Properties” means, as of any date of determination, all Properties (other than Acquired Properties or Pre-Leased Development Properties): (a) which are partially or fully income producing for financial reporting purposes on the applicable calculation date and have been continuously partially or fully income producing for financial reporting purposes for the calendar quarter ending immediately preceding the calculation date, (b) for which an unconditional base building certificate of occupancy (or its equivalent) has been issued by the applicable governmental authority, (c) as to such assets which, in the immediately preceding reporting period, were classified as Non-Income Producing Properties (other than Pre-Leased Development Properties), which either (i) are leased to tenants in occupancy and the leases for such tenants in occupancy (excluding tenants under free rent periods) represent seventy-five percent (75%) or more of the rentable square footage of the applicable real property asset; or (ii) have, if not for this clause (c)(ii), qualified as a Non-Income Producing Property for a period equal to or in excess of eighteen (18) months following the issuance of an unconditional base building certificate of occupancy and (d) as to such assets which, in the immediately preceding reporting period, were classified as Pre-Leased Development Properties, which have, if not for this clause (d), qualified as a Non-Income Producing Property for a period equal to or in excess of six (6) months following the issuance of an unconditional base building certificate of occupancy or substantial completion of the applicable improvements (provided, that different phases of real property developments shall be treated as different assets for purposes of this determination); provided, however, that “Income Producing Properties” shall not include the revenue resulting from intra or inter-entity leases between the Borrower and any of the Subject Parties.

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

- (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;
- (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;
- (c) net obligations of such Person under any Swap Contract;
- (d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business to the extent not past due for more than one hundred twenty (120) days after the date on which such trade account payable was created);
- (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) the principal portion of capital leases, Synthetic Lease Obligations and all other Off-Balance Sheet Liabilities;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; provided, however, that such obligations shall not be considered Indebtedness hereunder to the extent such redemption may be completed through the issuance by such Person of its capital stock in exchange for the Equity Interests being redeemed and such Person has elected or may still elect to issue such capital stock rather than pay other consideration in connection with such redemption;

(h) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements,

(i) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in Section 10.04(b).

“Information” has the meaning specified in Section 10.07.

“Intangible Assets” means assets that are considered to be intangible assets under GAAP, including customer lists, goodwill, computer software, copyrights, trade names, trademarks, patents, franchises, licenses, unamortized deferred charges, unamortized debt discount and capitalized research and development costs.

“Interest Expense” means, for any period, (a) all interest expense (including, without limitation, the interest component under capital leases and with respect to Off-Balance Sheet Liabilities) of the Consolidated Parties for such period, as determined in accordance with GAAP, plus (b) all interest expense (including the interest component under capital leases and with respect to Off-Balance Sheet Liabilities), as determined in accordance with GAAP, of each Unconsolidated Affiliate multiplied by the respective Unconsolidated Affiliate Interest in each such entity; provided, that the Facility Fees paid by the Borrowers pursuant to the Existing Credit Agreement during any such period shall constitute a portion of the “Interest Expense” for purposes of this definition; provided, further, that any amount of capitalized or accrued interest on the Indebtedness of any Consolidated Party shall be included in the calculation of “Interest Expense,” whether or not such amounts constitute interest expense as determined in accordance with GAAP, but except to the extent such expenses are addressed in a related construction budget or the Borrowers maintain, as of a given calculation date, availability under the Facility equal to or in excess of 25% of the Facility Amount.

“Interest Payment Date” means, (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the first (1st) Business Day of each calendar month and the Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date seven (7) days or one (1), three (3) or six (6) months thereafter, as selected by the Principal Borrower in the Notice of Borrowing, a Notice of Continuation or a Notice of Conversion, as applicable; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period (other than an Interest Period having a duration of seven (7) days) that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period shall extend beyond the Maturity Date.

“Internal Control Event” means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Principal Borrower’s internal controls over financial reporting, in each case as described in the Securities Laws.

“IP Rights” has the meaning specified in Section 5.17.

“IRS” means the United States Internal Revenue Service.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lender” has the meaning specified in the introductory paragraph hereto.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrowers and the Administrative Agent.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” has the meaning specified in Section 2.01.

“Loan Documents” means this Agreement, each Note and the Guaranty.

“Loan Parties” means, collectively, each of the Borrowers and each Guarantor.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent) or condition (financial or otherwise) of the Consolidated Parties, taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

“Maturity Date” has the meaning specified in Section 2.11(a).

“Moody’s” means Moody’s Investors Service, Inc., and any successor thereto.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which any of the Borrowers 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 Agreement or any other Loan 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 Agreement.

“Net Asset Sales Proceeds” means, with respect to any Disposition (other than a 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 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 (a) net income (excluding extraordinary and non-recurring gains and losses, impairments, non-cash equity-based compensation charges, prepayment penalties, gains or losses on the sale of property and related tax effects thereto) after taxes for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (b) without duplication, an amount equal to the line item “non-controlling interests,” as shown on the consolidated income statements of the Consolidated Parties, plus (c) without duplication, an amount equal to the aggregate of net income (excluding extraordinary and non-recurring gains and losses, impairments, non-cash equity-based compensation charges, prepayment penalties, gains or losses on the sale of property and related tax effects thereof) after taxes for such period, as determined in accordance with GAAP, of each Unconsolidated Affiliate multiplied by the respective Unconsolidated Affiliate Interest of each such entity.

“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 accrued with respect to such Property or Properties), less (ii) to the extent included in the calculation of operating expenses, (A) total federal, state, local and foreign income, franchise, value added and similar taxes, (B) depreciation and amortization, and (C) Interest Expense.

“NGS Excess Cash Flow” means an amount equal to all net operating income of a 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.

“ Non-Guarantor Subsidiaries ” means, as of any date of determination, a collective reference to:

(a) those entities specified in the schedules to the Loan Documents;

(b) any Subsidiary of any Loan Party (i) formed for or converted to (in accordance with the terms and conditions set forth herein) the specific purpose of holding title to assets which are collateral for indebtedness owing by such Subsidiary and (ii) which is (or, immediately following its release as a Loan Party hereunder, shall be) expressly prohibited in writing from guaranteeing indebtedness of any other person or entity pursuant to (A) a provision in any document, instrument or agreement evidencing such indebtedness of such Subsidiary or (B) a provision of such Subsidiary's organizational documents, in each case, which provision was included in such organizational document or such other document, instrument or agreement as an express condition to the extension of such indebtedness required by the third party creditor providing the subject financing; provided, that a Subsidiary meeting the above requirements shall only remain a “Non-Guarantor Subsidiary” for so long as (1) each of the above requirements are satisfied, (2) such Subsidiary does not guarantee any other indebtedness and (3) the indebtedness with respect to which the restrictions noted in clause (ii) are imposed remains outstanding;

(c) any Subsidiary of any Loan Party (i) which becomes a Subsidiary of any Loan Party following the Closing Date, (ii) which is not a wholly-owned Subsidiary of the Loan Party, and (iii) with respect to which the Loan Party, as applicable, does not have sufficient voting power (and is unable, after good faith efforts to do so, to cause any necessary non-Loan Party equity holders to agree) to cause such Subsidiary to execute the Guaranty pursuant to the terms of the Loan Documents or, notwithstanding such voting power, the interests of such non-Loan Party holders have material economic value in the reasonable judgment of the Principal Borrower that would be impaired by the execution of the Guaranty; and

(d) any other Subsidiary of a Loan Party to the extent (i) such Subsidiary holds no assets; or (ii) (A) such Subsidiary holds Total Asset Value with a value of less than \$500,000 and (B) the sum of the values of the Total Asset Value held by the Subsidiaries already qualifying as Non-Guarantor Subsidiaries pursuant to subclause (d)(ii)(A) above plus the value of the Total Asset Value held by the applicable Subsidiary is less than \$5,000,000; and

“ Non-Guarantor Subsidiary ” means any one of such entities.

“ Non-Income Producing Properties ” means a collective reference to all Properties which do not qualify as “Income Producing Properties” (following application of subsection (c)(ii) and each other provision of the definition thereof and including, without limitation, Properties qualifying as Pre-Leased Development Properties, Acquired Properties, Speculative Land and Properties Under Development).

“ Non-Recourse Debt ” means, with respect to any Person, Indebtedness for borrowed money in respect of which recourse for payment (except for customary exceptions for fraud, misapplication of funds, environmental indemnities, and other similar exceptions to non-recourse provisions (including exceptions relating to bankruptcy, insolvency, receivership, non-approved transfers or other customary or similar events)) is contractually limited to specific assets of such Person encumbered by a Lien securing such Indebtedness.

“ Note ” means a promissory note made by the Borrowers in favor of a Lender evidencing the Loan made by such Lender, substantially in the form of Exhibit D.

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

“ Notice of Borrowing ” means a notice substantially in the form of Exhibit A (or such other form reasonably acceptable to the Administrative Agent and containing the information required in such Exhibit) to be delivered to the Administrative Agent pursuant to Section 2.02 evidencing the Borrowers' request for the borrowing of the Loans.

“ Notice of Continuation ” means a notice substantially in the form of Exhibit B (or such other form reasonably acceptable to the Administrative Agent and containing the information required in such Exhibit) to be delivered to the Administrative Agent pursuant to Section 2.02 evidencing the Borrowers’ request for the continuation of Eurodollar Rate Loans.

“ Notice of Conversion ” means a notice substantially in the form of Exhibit C (or such other form reasonably acceptable to the Administrative Agent and containing the information required in such Exhibit) to be delivered to the Administrative Agent pursuant to Section 2.02 evidencing the Borrowers’ request for the conversion of Loans from one Type to another Type.

“ Obligations ” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue under the Loan Documents after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding. The term “Obligations” shall not include any obligations in respect of any Swap Contract between any Loan Party and any Lender or any Affiliate of a Lender.

“ Off-Balance Sheet Liabilities ” means, with respect to any Person as of any date of determination thereof, without duplication and to the extent not included as a liability on the consolidated balance sheet of such Person and its Subsidiaries in accordance with GAAP: (a) with respect to any asset securitization transaction (including any accounts receivable purchase facility) (i) the unrecovered investment of purchasers or transferees of assets so transferred and (ii) any other payment, recourse, repurchase, hold harmless, indemnity or similar obligation of such Person or any of its Subsidiaries in respect of assets transferred or payments made in respect thereof, other than limited recourse provisions that are customary for transactions of such type and that neither (x) have the effect of limiting the loss or credit risk of such purchasers or transferees with respect to payment or performance by the obligors of the assets so transferred nor (y) impair the characterization of the transaction as a true sale under applicable Laws (including Debtor Relief Laws); (b) the monetary obligations under any financing lease or so-called “synthetic,” tax retention or off-balance sheet lease transaction which, upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness; (c) the monetary obligations under any sale and leaseback transaction which does not create a liability on the consolidated balance sheet of such Person and its Subsidiaries; or (d) any other monetary obligation arising with respect to any other transaction which (i) is characterized as indebtedness for tax purposes but not for accounting purposes in accordance with GAAP or (ii) is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person and its Subsidiaries (for purposes of this clause (d), any transaction structured to provide tax deductibility as interest expense of any dividend, coupon or other periodic payment will be deemed to be the functional equivalent of a borrowing).

“ Organization Documents ” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“ Other Taxes ” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“ Outstanding Amount ” means with respect to Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date.

“Participant” has the meaning specified in Section 10.06(d).

“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 of the Borrowers or any ERISA Affiliate or to which the Borrower 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.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

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

“Platform” has the meaning specified in Section 6.02.

“PNC Credit Facility” means that certain Master Credit Agreement dated as of December 20, 2007, by and between Highwoods Realty, as borrower, and PNC Bank, National Association, as administrative agent, and the “Banks” party thereto, as the same may have been or may be amended, restated, supplemented or modified from time to time.

“Potential Defaulting Lender” means any Lender that, prior to the Closing Date: (a) has failed to comply with, or has made a public statement to the effect that it does not intend to comply with, its funding obligations under one or more syndicated credit facilities or other agreements in which it commits or is obligated to extend credit (other than this Agreement); (b) has a parent corporation or other Affiliate that is subject to any condition or event described in the immediately preceding clause (a); or (c) has, or whose parent corporation has, a Credit Rating of less than BBB-/Baa3 (or equivalent) from either S&P or Moody’s. As used in this definition, the term “parent corporation” means, with respect to a Lender, any Person Controlling such Lender, including without limitation, the bank holding company (as defined in Regulation Y of the Board of Governors of the Federal Reserve System), if any, of such Lender.

“Preferred Stock Subsidiary” means any entity (a) in which a Loan Party owns at least ninety percent (90.0%) of the Equity Interests but less than ten percent (10.0%) of the Voting Stock and (b) 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.

“Pre-Leased Development Properties” means a collective reference to all Properties Under Development that are, prior to the issuance of any certificate of occupancy (temporary or otherwise) related to the applicable improvements, at least 50% (or, for purposes of the calculation set forth in Section 7.08(g)(i)(B) only, 75%) pre-leased to third parties that are not affiliated with the Borrowers or any Subject Party pursuant to valid and binding lease agreements under which (a) commencement of rental payment obligations are contingent only upon completion of the applicable improvements and other standard conditions; (b) the applicable lessee is not the subject of any then-continuing bankruptcy or insolvency proceedings; and (c) no defaults or events of default are, to the knowledge of the Borrowers, then-continuing.

“Principal Borrower” means Highwoods Properties, together with its successors and assigns.

“Pro Forma Compliance Certificate” means a certificate of an officer of the Principal Borrower delivered to the Administrative Agent in connection with a 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 7.08.

“Properties” means, as of any date of determination, all interests in real property (direct or indirect), together with all improvements thereon, owned by any Subject Party; and “Property” means any one of them.

“Properties Under Development” means, as of any date of determination, all Properties, the primary purpose of which is to be leased in the ordinary course of business or to be sold upon completion and on which any Subject Party has commenced construction of a building or other improvements; provided that any such Property will no longer be considered a Property Under Development when, (a) such Property qualifies as an Income Producing Property or (b) prior to substantial completion of the construction work with respect to the property, such construction work has ceased for a period of thirty (30) days, in which case such Property shall be considered Speculative Land until such time as construction has resumed.

“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 Equity Interests 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 Equity Interests, (b) detailed calculations for (i) gross asset sales proceeds and Net Asset Sales Proceeds from (A) Dispositions not involving Speculative Land and (B) Dispositions of Speculative Land, in each case for the immediately preceding fiscal quarter, (ii) a projection of expected Dispositions for the four fiscal quarters following the quarter referenced in clause (i) on a quarter by quarter basis, and (iii) 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.

“Recourse Debt” shall mean, with respect to any Person, all Indebtedness of such Person that is not Non-Recourse Debt; provided, that, for purposes of clarification, Guarantees of such Person of the Non-Recourse Debt of a third party shall be considered Recourse Debt of such Person to the extent of such Person's Guarantee (unless recourse with respect to such Guarantee is specifically limited to certain assets of such Person); provided further that, for the purpose of calculating the financial covenant set forth in Section 7.08(b), “Recourse Debt” shall include 50% of the Indebtedness related to the PNC Credit Facility (to the extent the actual principal amount of such Indebtedness does not exceed \$50,000,000; with any excess over \$50,000,000 being fully counted for purposes of such calculation).

“Register” has the meaning specified in Section 10.06(c).

“Registered Public Accounting Firm” has the meaning specified in the Securities Laws and shall be independent of the Borrowers as prescribed by the Securities Laws.

“REIT” means a Person qualifying for treatment as a “real estate investment trust” under the Code.

“Related Parties” means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

“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, as of any date of determination, Lenders holding in the aggregate at least sixty-six and two-thirds of one percent (66-2/3%) of the Total Outstandings; provided that the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Responsible Officer” means the chief executive officer, president, chief operating officer, chief financial officer, general counsel or treasurer of a Loan Party, or any other individual who may from time to time be authorized by the Board of Directors of the Principal Borrower to serve as a “Responsible Officer” for the purposes hereof. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“ Restricted Payment ” means (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of the Equity Interests of any Consolidated Party, now or hereafter outstanding (including any payment of dividends by the Principal Borrower necessary to retain its status as a REIT or to meet the distribution requirements of Section 857 of the Internal Revenue Code and any distributions by Highwoods Realty Limited Partnership to the Principal Borrower necessary to allow the Principal Borrower to maintain its status as a REIT or to meet the distribution requirements of Section 857 of the Internal Revenue Code), (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of the Equity Interests of any Consolidated Party, now or hereafter outstanding, (c) 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 the Equity Interests of any Consolidated Party, now or hereafter outstanding and (d) to the extent not otherwise accounted for in items (a) – (c) above, any payments, dividends or distributions of any type made by any Consolidated Party with respect to operating partnership units to the extent attributable to Highwoods Realty Limited Partnership.

“ Restricted Period ” means any period of time during which the Borrowers have, as a direct result of an adjustment of the Capitalization Rate by the Lenders in accordance with the terms of the definition of such term (and for no other reason), failed to meet any of the financial covenants set forth herein, subject to the following: (a) each such period shall commence as of the first day on which any such adjustment occurs and no Restricted Period shall exist with respect to a given adjustment in the Capitalization Rate to the extent such adjustment does not, as of the first day on which such adjustment occurs, cause the Borrowers to fail to meet any of the financial covenants set forth herein; and (b) a Restricted Period in effect with respect to any given adjustment in the Capitalization Rate shall end on the earlier of (i) the date occurring one hundred twenty (120) days following the date of the applicable adjustment and (ii) the date on which the Borrowers are again in compliance with all financial covenants which were previously violated as a result of such adjustment.

“ S&P ” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

“ Sarbanes-Oxley ” means the Sarbanes-Oxley Act of 2002.

“ 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 Unconsolidated Affiliate for the applicable period (including the principal component of payments due on capital leases during the applicable period), multiplied by the respective Unconsolidated Affiliate Interest of each such entity, plus (c) the amount of the aggregate payments made by the Consolidated Parties during such period as a result of any guaranties of 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), plus (d) the amount of the aggregate payments made by any Unconsolidated Affiliate(s) during such period as a result of any guaranties of 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), multiplied by the respective Unconsolidated Affiliate Interest of each such entity; it being understood that Scheduled Funded Debt Payments shall not include any one-time “bullet”, “lump sum” or “balloon” payments due on the repayment date of Funded Indebtedness.

“ SEC ” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“ Secured Debt ” means, for any given calculation date, (a) the total aggregate principal amount of any Indebtedness (other than Indebtedness incurred hereunder) of the Consolidated Parties, on a consolidated basis, that is (i) secured in any manner by any lien or (ii) entitled to the benefit of a negative pledge (other than under this Agreement), plus (b) the total aggregate principal amount of any indebtedness (other than Indebtedness incurred hereunder) of each Unconsolidated Affiliate that is (i) secured in any manner by any lien or (ii) entitled to the benefit of a negative pledge (other than under this Agreement), multiplied by the Unconsolidated Affiliate Interest with respect to each such Unconsolidated Affiliate. Indebtedness in respect of obligations under any capitalized lease shall not be deemed to be “Secured Debt.”

“Securities Laws” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

“Speculative Land” means, at any given time, all land owned by any Subject Party 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.

“Subject Parties” means the Principal Borrower and each of its Subsidiaries and Affiliates.

“Subsidiary” means, as to any entity, a corporation, partnership, joint venture, limited liability company or other business entity (a) of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person or (b) the financial statements of which are required, pursuant to GAAP, to be consolidated with such entity.

“Supermajority Lenders” means, as of any date of determination, Lenders holding in the aggregate at least seventy-five percent (75.0%) of the Total Outstandings; provided that the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Tangible Net Worth” means, as of any date, the sum of (a) stockholder’s equity (as stated in the consolidated financial statements of the Principal Borrower), plus (b) accumulated depreciation with respect to real assets (to the extent deducted in determining stockholders’ equity), less (c) the value of all Intangible Assets of the Consolidated Parties on a consolidated basis (to the extent included in determining stockholders’ equity), in each case as determined in accordance with GAAP.

“ Taxes ” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“ Threshold Amount ” means \$10,000,000.00.

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

“ Total Asset Value ” means, as of any date of determination, the sum of, without duplication, (a) the aggregate Value of all Income Producing Properties; plus (b) the aggregate Value of all Non-Income Producing Properties; plus (c) cash and cash equivalents held by the Loan Parties, plus (d) up to \$50,000,000 (in the aggregate) in notes receivable related to secured first mortgage or mezzanine financings pursuant to each of which the initial loan to cost ratio is not in excess of 75.0%.

“ Total Liabilities ” means, as of any date of determination, the sum of (a) total liabilities of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (b) an amount equal to the aggregate of total liabilities, as determined in accordance with GAAP, of each Unconsolidated Affiliate multiplied by the respective Unconsolidated Affiliate Interest of each such entity (except to the extent any Loan Party would be legally liable for a greater percentage of such liabilities, in which such larger percentage shall be used), plus (c) without duplication, the Indebtedness of the Consolidated Parties on a consolidated basis plus (d) without duplication, the aggregate Indebtedness of each Unconsolidated Affiliate multiplied by the respective Unconsolidated Affiliate Interest of each such entity (except to the extent any Loan Party would be legally liable for a greater percentage of such Indebtedness, in which case such larger percentage shall be used).

“ Total Outstandings ” means the aggregate Outstanding Amount of all Loans.

“ Transfer Authorizer Designation Form ” means a form substantially in the form of Exhibit I to be delivered to the Administrative Agent pursuant to Section 4.01(a), as the same may be amended, restated or modified from time to time with the prior written approval of the Administrative Agent.

“ Type ” means, with respect to a Loan (or any portion thereof), its character as a Base Rate Loan or a Eurodollar Rate Loan.

“ Unconsolidated Affiliate Interest ” means the percentage of the Equity Interests owned by a Consolidated Party in an Unconsolidated Affiliate accounted for pursuant to the equity method of accounting under GAAP.

“ Unconsolidated Affiliate ” 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, any Equity Interest.

“ Unencumbered Assets ” means, as of any date of determination, all Properties that are not subject to any Liens or Negative Pledges and which are wholly-owned by a Loan Party.

“ Unencumbered Asset Value ” means the sum of, without duplication, (a) the Value of all Properties (other than Pre-Leased Development Properties) that are Unencumbered Assets; plus (b) the Value of all Pre-Leased Development Properties that are Unencumbered Assets, plus (c) the Value of unrestricted cash and cash equivalents held by the Credit Parties to the extent constituting proceeds from asset sales of assets previously qualifying as Unencumbered Assets completed within the previous ten (10) days; provided, however, that to the extent the Value of Pre-Leased Development Properties included in the amount calculated pursuant to clause (b) above, as determined on any calculation date, exceeds ten percent (10.0%) of the total Unencumbered Asset Value, such Value of Pre-Leased Development Properties to be included in the calculation of Unencumbered Asset Value shall be automatically reduced to an amount which is equal to ten percent (10.0%) of the total Unencumbered Asset Value (before taking into account the reduction in the total Unencumbered Asset Value resulting from such reduction).

“ 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.

“ United States ” and “ U.S. ” mean the United States of America.

“ 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.

“ Value ” means:

(a) with respect to any Income Producing Property, either (i) the Annualized Adjusted NOI allocable to such Property, divided by the Capitalization Rate or (ii) with respect to the calculation of the value of such Income Producing Property for purposes of the Total Asset Value calculation only and to the extent specifically requested by the Principal Borrower in writing with respect to such Income Producing Property on or prior to the applicable date of calculation, the appraised value of such Income Producing Property; provided, that (y) such appraisal shall be in form and substance acceptable to the Administrative Agent in its discretion and that the “Value” of an Income Producing Property for purposes of determining Total Asset Value may not be determined by reference to its appraised value for a period in excess of one calendar year during the term of this Agreement and (z) to the extent that any such Income Producing Properties are owned by an Unconsolidated Affiliate, any appraised value used pursuant to subclause (ii) above shall be multiplied by the applicable Unconsolidated Affiliate Interest with respect thereto; and

(b) with respect to any Pre-Leased Development Property, the undepreciated book value of such Property or assets (as determined in accordance with GAAP); provided, that to the extent that any such Pre-Leased Development Properties are owned by an Unconsolidated Affiliate, such value shall be multiplied by the applicable Unconsolidated Affiliate Interest with respect thereto; and

(c) with respect to any other Non-Income Producing Property (including, without limitation, Properties qualifying as Acquired Properties, Speculative Land and Properties Under Development) or other assets held by any Person which do not qualify as Income Producing Properties:

(i) for all calculations other than those related to Unencumbered Asset Value, the undepreciated book value of such Property or assets (as determined in accordance with GAAP); and

(ii) for all calculations related to Unencumbered Asset Value, the Annualized Adjusted NOI allocable to such Property, divided by the Capitalization Rate;

provided, in each case, that to the extent that any such Non-Income Producing Properties are owned by an Unconsolidated Affiliate, such value shall be multiplied by the applicable Unconsolidated Affiliate Interest with respect thereto

“ Voting Stock ” means, with respect to any Person, Equity Interests 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.

1.02 Other Interpretive Provisions .

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms .

(a) Generally . All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP . The parties hereto acknowledge and agree that if at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrowers or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrowers shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that , until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrowers shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) Harborview Carve-Out . Notwithstanding anything to the contrary contained herein, for purposes of determining the financial effects of the Harborview Project, which would otherwise qualify as a sold property which would be required by GAAP to remain on the consolidated financial statements of any one or more of the Consolidated Parties as a result of applying the financing, profit sharing or other alternative accounting methods prescribed by paragraphs 25 to 29 of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," issued October, 1982 ("FAS 66"), such provisions of FAS 66 shall, for the duration of this Agreement, not be reflected for purposes of calculating the financial covenants contained in the Loan Documents. For purposes of clarification, all real estate transactions other than the Harborview Project shall, for the duration of this Agreement, be accounted for using standard GAAP accounting (including application, as applicable, of paragraphs 25 to 29 of FAS 66).

(d) Consolidation of Variable Interest Entities . All references herein to consolidated financial statements of the Principal Borrower and its Subsidiaries or to the determination of any amount for the Principal Borrower and its Subsidiaries on a consolidated basis or any similar reference shall, in each case, be deemed to include each variable interest entity that the Principal Borrower is required to consolidate pursuant to FASB Interpretation No. 46 – Consolidation of Variable Interest Entities: an interpretation of ARB No. 51 (January 2003) as if such variable interest entity were a Subsidiary as defined herein.

(e) Treatment of Equity Interests Subject to Redemption Notices . Notwithstanding anything contained herein to the contrary or anything set forth in GAAP to the contrary, all Equity Interests constituting preferred stock of Highwoods Properties that is the subject of an outstanding redemption notice from Highwoods Properties shall, for purposes of the Section 7.08 financial covenant calculations required to be performed herein and any other determination of the liabilities or the Indebtedness of Highwoods Properties (regardless of whether liabilities or Indebtedness of any other Persons are included in such calculation) shall be treated as equity rather than as a liability for purposes of this Agreement; provided, that such treatment shall be given subject to the following terms and conditions: (i) the treatment of any given share of Highwoods Properties' preferred stock as equity during any redemption notification period shall not exceed a period of sixty (60) days during the term of this Agreement (provided, that the status of such share shall, following any such sixty (60) day period, be subject to interpretation under GAAP) and (ii) the treatment of any given share of Highwoods Properties' preferred stock as equity when such share would otherwise be treated as a liability pursuant to GAAP shall be effective only with respect to shares of preferred stock that are subject to the giving of mandatory redemption notices.

(f) Joint Ventures . Except to the extent otherwise set forth herein, if any Borrower, any Loan Party or any of their respective subsidiaries enters into a joint venture agreement or similar arrangement, for purposes of calculating the financial covenants set forth in Section 7.08 , any such investment will be treated on a pro rata basis and the Borrowers will be credited with their pro rata share of the income and investment and will be charged with its pro rata share of the expenses and liabilities, including Indebtedness and debt service. If however, any Indebtedness of a joint venture of any type is recourse to any Borrower or any other Loan Party, then the greater of the Borrowers' pro rata portion of the debt or the portion of the debt which is recourse to the Borrowers or such Loan Party shall be used in calculating the financial covenants set forth in Section 7.08 .

1.04 Rounding .

Any financial ratios required to be maintained by the Borrowers pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day .

Unless otherwise specified, all references herein to times of day shall be references to Eastern Time (daylight or standard, as applicable).

1.06 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 10.04 hereof.

1.07 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 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 Obligations arising under this Agreement and the other Loan Documents, it being the intention of the parties hereto that all the 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 1.07 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 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 Agreement), or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by the Administrative Agent and/or Lenders under or in respect of any of the Obligations hereunder, any requirement of diligence and, generally, all demands, notices and other formalities of every kind in connection with this Agreement. Each Borrower hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations hereunder, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by the Administrative Agent and/or 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 Agreement, any and all other indulgences whatsoever by the Administrative Agent and/or Lenders in respect of any of the 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 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 Administrative Agent and/or Lenders, 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 1.07, afford grounds for terminating, discharging or relieving such Borrower, in whole or in part, from any of its obligations under this Section 1.07, it being the intention of each Borrower that, so long as any of the Obligations hereunder remain unsatisfied, the obligations of such Borrower under this Section 1.07 shall not be discharged except by performance and then only to the extent of such performance. The obligations of each Borrower under this Section 1.07 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, the Administrative Agent 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, the Administrative Agent or any Lender.

(f) The provisions of this Section 1.07 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 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 1.07 shall remain in effect until all the Obligations hereunder shall have been Fully Satisfied.

(g) Notwithstanding any provision to the contrary contained herein or in any other of the Loan Documents, 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.

1.08 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 Agreement and the other Loan Documents (including, without limitation, with respect to all matters related to the borrowing, repayment and administration of Loans as described in Articles II and III 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 Agreement and the other Loan Documents. Notwithstanding anything contained herein to the contrary, to the extent any provision in this 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.

ARTICLE II

THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 Loans.

(a) Making of Loans. Subject to the terms and conditions set forth in this Agreement, on the Closing Date each Lender severally and not jointly agrees to make a loan (a "Loan") to the Borrowers in a principal amount equal to such Lender's Commitment. Once repaid, the principal amount of a Loan may not be reborrowed.

(b) Funding of Loans. Promptly after receipt of the Notice of Borrowing under the immediately following Section 2.02, the Administrative Agent shall notify each Lender of the proposed borrowing. Each Lender shall deposit an amount equal to the Loan to be made by such Lender to the Borrowers with the Administrative Agent at the Administrative Agent's Office, in immediately available funds not later than 10:00 a.m. on the Closing Date. Subject to fulfillment of all applicable conditions set forth herein, the Administrative Agent shall make available to the Borrowers in the account specified in the Transfer Authorizer Designation Form, not later than 1:00 p.m. on the Closing Date, the proceeds of such amounts received by the Administrative Agent.

2.02 Borrowings, Conversions and Continuations of Loans.

(a) The making of the Loans on the Closing Date, each conversion of Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrowers' irrevocable notice to the Administrative Agent (which notice shall be delivered by the Principal Borrower), which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. three (3) Business Days prior to the requested date of the Borrowing, of any conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans. Each telephonic notice by the Borrowers pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Notice of Borrowing, Notice of Conversion or Notice of

Continuation, as applicable, appropriately completed and signed by a Responsible Officer of the Principal Borrower. The making of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$2,000,000 or a whole multiple of \$1,000,000 in excess thereof. The making of or conversion to Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof. Each Notice of Conversion and Notice of Continuation (whether telephonic or written) shall specify (i) whether the Borrowers are requesting a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, as applicable, (ii) the requested date of the conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Loans to be converted or continued, (iv) the Type of Loans to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrowers fail to specify a Type of Loan in a Notice of Conversion or Notice of Continuation or if the Borrowers fail to give a timely Notice of Continuation, then the applicable Loans shall be continued as one month Eurodollar Rate Loans. Any such automatic continuation of one month Eurodollar Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable expiring Eurodollar Rate Loans. If the Borrowers request a conversion to, or continuation of, Eurodollar Rate Loans in any such notice, but fail to specify an Interest Period, the Borrowers will be deemed to have requested an Interest Period of one month.

(b) If no timely Notice of Conversion or Continuation is provided by the Borrowers, the Administrative Agent shall notify each Lender of the details of any automatic conversion to one month Eurodollar Rate Loans described in the preceding subsection.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrowers and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate.

(e) After giving effect to the Borrowing, all conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than 3 Interest Periods in effect with respect to Loans.

2.03 Prepayments .

(a) Generally. Except as otherwise provided in the immediately following subsection and subject to Section 2.06, the Borrowers may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Administrative Agent not later than 11:00 a.m. (A) three (3) Business Days prior to any date of prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$500,000 in excess thereof; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Borrowers, the Borrowers shall make such prepayment and the payment amount specified in such notice, together with any amount due under the immediately following subsection (b), shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Loans of the Lenders in accordance with their respective Applicable Percentages.

(b) Prepayment Premium. During the periods set forth below, the Borrowers may only prepay the Loans, in whole or in part, at the prices (expressed as percentages of principal amount of the Loans to be prepaid) set forth below, plus accrued and unpaid interest, if any, to the date of prepayment:

Period	Percentage
Closing Date to and including February 24, 2012	103.00%
February 25, 2012 to and including February 24, 2013	101.50%
All times after February 24, 2013	100.00%

The Borrowers acknowledge and agree that the amount payable by them under this Section in connection with the prepayment of the Loans is a reasonable calculation of the Lenders' lost profits in view of the difficulties and impracticality of determining actual damages resulting from the prepayment of the Loans.

2.04 Repayment of Loans.

(a) The Borrowers shall repay to the Lenders on the Maturity Date the aggregate principal amount of Loans outstanding on such date in accordance with Section 2.11 hereof.

2.05 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any amount (other than principal of any Loan) payable by the Borrowers under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Required Lenders, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iii) Upon the request of the Required Lenders, while any Event of Default exists, the Borrowers shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.06 Fees.

The Borrowers shall, without duplication of any fees documented herein, pay to the Arranger and the Administrative Agent any such other fees as mutually agreed to (including any fees pursuant to the Fee Letter). Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever, except as otherwise specifically agreed.

2.07 Computation of Interest and Fees .

All computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.09(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.08 Evidence of Debt .

The Loan made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Loan made by the Lenders to the Borrowers and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrowers hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Except in the case of any Lender that has advised the Administrative Agent that such Lender does not want to receive a Note, the Borrowers shall execute and deliver to each Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loan in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, amount and maturity of its Loan and payments with respect thereto.

2.09 Payments Generally; Administrative Agent's Clawback .

(a) General . All payments to be made by the Borrowers shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrowers hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office; provided that any such payment shall, to the extent distributed after the Business Day following the Administrative Agent's receipt thereof, be accompanied by interest on such payment amount (payable by the Administrative Agent) calculated at the Federal Funds Rate commencing as of the date which is two (2) days following the Business Day following the Administrative Agent's receipt of such payment through the date on which the Administrative Agent makes such payment to the applicable Lender(s). All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrowers shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent . Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of the Borrowing of Eurodollar Rate Loans (or, in the case of any Borrowing of Base Rate Loans, prior to 12:00 noon on the date of the Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of the Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrowers a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrowers severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrowers to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by the Borrowers, the interest rate applicable to Base Rate Loans. If the Borrowers and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrowers the amount of such interest paid by the Borrowers for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrowers shall be without prejudice to any claim the Borrowers may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Borrowers; Presumptions by Administrative Agent . Unless the Administrative Agent shall have received notice from the Borrowers prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrowers will not make such payment, the Administrative Agent may assume that the Borrowers have made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrowers have not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Borrowers with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent . If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrowers by the Administrative Agent because the conditions to the Borrowing set forth in Article IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several . The obligations of the Lenders hereunder to make Loans and to make payments pursuant to Section 10.04(c) are several and not joint. The failure of any Lender to make its Loan, or to make any payment under Section 10.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan or to make its payment under Section 10.04(c) .

(e) Funding Source . Nothing herein shall be deemed to obligate any Lender to obtain the funds for its Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for its Loan in any particular place or manner.

2.10 Sharing of Payments by Lenders .

If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on its Loan resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loan and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by the Borrowers pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrowers or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

2.11 Maturity Date.

(a) Maturity Date. Subject to the provisions of clause (b) of this Section 2.11, the Borrowers shall, on February 24, 2016 (the “Maturity Date”), cause the Obligations (including, without limitation, all outstanding principal and interest on the Loans and all fees, costs and expenses due and owing under the Loan Documents) to be paid in full.

(b) Satisfaction of Obligations Upon Acceleration. Notwithstanding anything contained herein or in any other Loan Document to the contrary, to the extent any of the Obligations are accelerated pursuant to the terms hereof (including, without limitation, Section 8.02 hereof), the Borrowers shall, immediately upon the occurrence of such acceleration, cause such accelerated Obligations to be paid in full.

(c) Conflicting Provisions. This Section shall supersede any provisions in Section 2.10 or 10.01 to the contrary.

2.12 Additional Loans.

The Borrowers shall have the right at any time and from time to time during the period beginning on the Closing Date to but excluding the date 90 days prior to the Maturity Date to request additional Loans by providing written notice to the Administrative Agent, which notice shall be irrevocable once given; provided, however, that after giving effect to any such increases the aggregate amount of the Loans shall not exceed \$300,000,000. Each such increase in the Loans must be an aggregate minimum amount of \$50,000,000 and integral multiples of \$10,000,000 in excess thereof. The Agent shall promptly notify each Lender upon receipt of any such notice from the Borrowers. Each Lender shall notify the Agent within 5 Business Days after receipt of the Agent's notice whether such Lender wishes to provide an additional Loan and if so, the maximum principal amount of the Loan such Lender is willing to provide. If a Lender fails to deliver any such notice to the Agent within such time period, then such Lender shall be deemed to have declined to provide an additional Loan. If the aggregate principal amount of the additional Loans the Lenders are willing to provide is less than the aggregate principal amount of additional Loans requested by the Borrowers, then the Administrative Agent may approach other banks, financial institutions and other institutional lenders regarding providing additional Loans. The Administrative Agent, in consultation with the Borrowers, shall manage all aspects of the syndication of such increase in the Loans, including decisions as to the selection of the existing Lenders and/or other banks, financial institutions and other institutional lenders to be approached with respect to such increase and the allocations of the increase in the Loans among such existing Lenders and/or other banks, financial institutions and other institutional lenders. No Lender shall be obligated in any way whatsoever to increase the principal amount of its Loan or provide a new Loan, and any new Lender becoming a party to this Agreement in connection with any such requested increase must be an Eligible Assignee. Effecting the increase of the Loans under this Section is subject to the following conditions precedent: (x) no Default or Event of Default shall be in existence on the effective date of such increase, (y) the representations and warranties made or deemed made by the Borrowers or any other Loan Party in any Loan Document to which such Loan Party is a party shall be true and correct on and as of the effective date of such increase except to the extent that such representations and warranties specifically refer to an earlier

date, in which case they shall be true and correct in all material respects (unless such representation and warranty is subject to a materiality or Material Adverse Effect qualifier in which case it will be true and correct in all respects), it being understood and agreed that any violation of any covenant contained in Section 7.08 shall be deemed material such that any representation with respect to compliance therewith shall be deemed material in any event, and except that for purposes of this Section, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01, and (z) the Administrative Agent shall have received each of the following, in form and substance satisfactory to the Administrative Agent: (i) if not previously delivered to the Administrative Agent, copies certified by the Secretary or Assistant Secretary of (A) all corporate and other necessary action taken by the Borrowers to authorize such increase and (B) all corporate and other necessary action taken by each Guarantor authorizing the guaranty of such increase; (ii) an opinion of counsel to the Borrowers and the Guarantors, and addressed to the Administrative Agent and the Lenders covering such matters as reasonably requested by the Administrative Agent, and (iii) new Notes executed by the Borrowers, payable to any new Lenders and replacement Notes executed by the Borrowers, payable to any existing Lenders increasing the principal amount of their Loans, in the principal amount of such Lender's Loan at the time of the effectiveness of the applicable increase in the aggregate principal amount of the Loans. In connection with any increase in the aggregate principal amount of the Loans pursuant to this Section any Lender becoming a party hereto shall execute such documents and agreements as the Administrative Agent may reasonably request.

2.13 Funds Transfer Disbursements.

(a) Generally. The Borrowers hereby authorize the Administrative Agent to disburse the proceeds of any Loan made by the Lenders or any of their Affiliates pursuant to the Loan Documents as requested by an authorized representative of the Principal Borrower or any other Borrower to any of the accounts designated in the Transfer Authorizer Designation Form. The Borrowers agree to be bound by any transfer request: (i) authorized or transmitted by the Borrowers; or (ii) made in the Borrowers' name, not containing any manifest errors and accepted by the Administrative Agent in good faith and in compliance with these transfer instructions, even if not properly authorized by the Borrowers. The Borrowers further agree and acknowledge that the Administrative Agent may rely solely on any bank routing number or identifying bank account number or name provided by the Borrowers to effect a wire of funds transfer even if the information provided by the Borrowers identifies a different bank or account holder than named by the Borrowers. The Administrative Agent is not obligated or required in any way to take any actions to detect errors in information provided by the Borrowers. If the Administrative Agent takes any actions in an attempt to detect errors in the transmission or content of transfer or requests or takes any actions in an attempt to detect unauthorized funds transfer requests, the Borrowers agree that no matter how many times the Administrative Agent takes these actions the Administrative Agent will not in any situation be liable for failing to take or correctly perform these actions in the future and such actions shall not become any part of the transfer disbursement procedures authorized under this provision, the Loan Documents, or any agreement between the Administrative Agent and the Borrowers. The Borrowers agree to notify the Administrative Agent of any errors in the transfer of any funds or of any unauthorized or improperly authorized transfer requests within fourteen (14) days after the Administrative Agent's confirmation to the Borrowers of such transfer.

(b) Funds Transfer. The Administrative Agent will, in its sole discretion, determine the funds transfer system and the means by which each transfer will be made. The Administrative Agent may delay or refuse to accept a funds transfer request if the transfer would: (i) violate the terms of this authorization, (ii) require use of a bank unacceptable to the Administrative Agent or any Lender, in its reasonable discretion, or prohibited by any Governmental Authority, (iii) cause the Administrative Agent or any Lender to violate any Federal Reserve or other regulatory risk control program or guideline or (iv) otherwise cause the Administrative Agent or any Lender to violate any Applicable Law or regulation.

(c) Limitation of Liability. None of the Administrative Agent or any Lender shall be liable to the Borrowers or any other parties for (i) errors, acts or failures to act of others, including other entities, banks, communications carriers or clearinghouses, through which the Borrowers' transfers may be made or information received or transmitted, and no such entity shall be deemed an agent of the Administrative Agent or any Lender, (ii) any loss, liability or delay caused by fires, earthquakes, wars, civil disturbances, power surges or failures, acts of government, labor disputes, failures in communications networks, legal constraints or other events beyond Administrative Agent's or any Lender's control, or (iii) any special, consequential, indirect or punitive damages, whether or not (x) any claim for these damages is based on tort or contract or (y) the Administrative Agent, any Lender or any of the Borrowers knew or should have known the likelihood of these damages in any situation. None of the Administrative Agent or any Lender makes any representations or warranties other than those expressly made in this Agreement.

2.14 Defaulting Lenders.

(a) Generally. If any Lender shall become a Defaulting Lender, then such Defaulting Lender's right to participate in the administration of the Loans, this Agreement and the other Loan Documents, including without limitation, any right to vote in respect any amendment, consent or waiver of the terms of this Agreement or any other Loan Document, or to direct any action or inaction of the Administrative Agent or to be taken into account in the calculation of the Required Lenders or Supermajority Lenders, as applicable, shall be suspended while such Lender remains a Defaulting Lender; provided, however, that the foregoing shall not permit a decrease in the principal amount of such Lender's Loan or an extension of the maturity date of such Lender's Loan or other Obligations owing to such Lender, in each case, without such Lender's consent. If a Lender is a Defaulting Lender because it has failed to make timely payment to the Administrative Agent of any amount required to be paid to the Administrative Agent hereunder (without giving effect to any notice or cure periods), then the Administrative Agent shall be entitled (i) to collect interest from such Defaulting Lender on such delinquent payment for the period from the date on which the payment was due until the date on which the payment is made at the Federal Funds Rate, (ii) to withhold or setoff and to apply in satisfaction of the defaulted payment and any related interest, any amounts otherwise payable to such Defaulting Lender under this Agreement or any other Loan Document and (iii) to bring an action or suit against such Defaulting Lender in a court of competent jurisdiction to recover the defaulted amount and any related interest. No Commitment of any Lender shall be increased or otherwise affected, and except as otherwise expressly provided in this Section, performance by the Borrowers of their obligations hereunder and the other Loan Documents shall not be excused or otherwise modified, as a result of the operation of this Section. The rights and remedies of the Borrowers, the Administrative Agent and the Lenders against a Defaulting Lender under this Section are in addition to any other rights and remedies the Borrowers, the Administrative Agent and the Lenders may have against such Defaulting Lender under this Agreement, any of the other Loan Documents, Applicable Law or otherwise.

(b) Treatment of Payments. Any amount paid by the Borrowers for the account of a Defaulting Lender under this Agreement or any other Loan Document will not be paid or distributed to such Defaulting Lender, but will instead be retained by the Administrative Agent in a segregated non-interest bearing account until such Defaulting Lender has ceased to be a Defaulting Lender in accordance with subsection (e) below or the termination of the Commitments and payment in full of all Obligations of the Borrowers hereunder and the other Loan Documents, at which time such amounts will be applied by the Administrative Agent to the making of payments from time to time in the following order of priority: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent under this Agreement; second, to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; third, if so determined by the Administrative Agent and the Borrowers, held in such account as cash collateral for future funding obligations of the Defaulting Lender under this Agreement. If such Lender is still a Defaulting Lender and any amounts remain in such account on the date that all Obligations of the Borrowers hereunder and under the other Loan Documents are paid in full, such amounts will be applied by the Administrative Agent at such time to the making of payments from time to time in the following order of priority: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent under this Agreement; second, to the payment of interest then due and payable to the Lenders hereunder other than Defaulting Lenders, ratably among them in accordance with the amounts of such interest then due and payable to them; third, to the payment of fees then due and payable to the Lenders other than Defaulting Lenders, ratably among them in accordance with the amounts of such fees then due and payable to them; fourth, to pay principal of all Loans then due and payable to the Lenders other than Defaulting Lenders hereunder ratably in accordance with the amounts thereof then due and payable to them; fifth, to the ratable payment of all other Obligations then due and payable to the Lenders other than Defaulting Lenders; and sixth, after payment in full of all Obligations of the Borrowers hereunder, to pay amounts owing under this Agreement to such Defaulting Lender or as a court of competent jurisdiction may otherwise direct.

(c) Fees. During any period that a Lender is a Defaulting Lender, such Defaulting Lender shall not be entitled to receive fees, if any, otherwise payable to such Defaulting Lender referred to in Section 2.06.

(d) Purchase of Defaulting Lender's Commitment. During any period that a Lender is a Defaulting Lender or a Potential Defaulting Lender, the Borrowers may, by giving written notice thereof to the Administrative Agent, such Defaulting Lender or Potential Defaulting Lender and the other Lenders, demand that such Defaulting Lender or Potential Defaulting Lender, as applicable, assign its Loan to an Eligible Assignee subject to and in accordance with the provisions of Section 10.06(b). No party hereto shall have any obligation whatsoever to initiate any such replacement or to assist in finding an Eligible Assignee. If the Borrowers demand that a Defaulting Lender or Potential Defaulting Lender assign its Loan to an Eligible Assignee, any Lender who is not a Defaulting Lender or Potential Defaulting Lender may, but shall not be obligated, in its sole discretion, to acquire the face amount of all or a portion of the Loan of such Defaulting Lender or Potential Defaulting Lender via an assignment subject to and in accordance with the provisions of Section 10.06(b). In connection with any such assignment, such Defaulting Lender or Potential Defaulting Lender, as applicable, shall promptly execute all documents reasonably requested to effect such assignment, including an appropriate Assignment and Assumption and, notwithstanding Section 10.06(b), shall pay to the Administrative Agent an assignment fee in the amount of \$10,000.

(e) Cure. If the Borrowers and the Administrative Agent agree in writing in their discretion that a Lender that is a Defaulting Lender or a Potential Defaulting Lender should no longer be deemed to be a Defaulting Lender or Potential Defaulting Lender, as the case may be, the Administrative Agent will so notify the Lenders, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein, such Lender will make such adjustments as the Administrative Agent may determine to be necessary to cause the interest of the Lenders in the Loans to be on a pro rata basis in accordance with their respective Applicable Percentages, whereupon such Lender will cease to be a Defaulting Lender or Potential Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrowers while such Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no cure by a Lender under this subsection of its status as a Defaulting Lender or Potential Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from such Lender's having been a Defaulting Lender or Potential Defaulting Lender.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrowers hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrowers shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (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) the Administrative Agent or Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrowers. Without limiting the provisions of subsection (a) above, the Borrowers shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrowers shall indemnify the Administrative Agent and each Lender, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent or such Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrowers by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrowers to a Governmental Authority, the Borrowers shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which any Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrowers (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrowers or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrowers or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrowers or the Administrative Agent as will enable the Borrowers or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, in the event that any Borrower is resident for tax purposes in the United States, any Foreign Lender shall deliver to the Borrowers and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrowers or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (B) a “10 percent shareholder” of each Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

(f) Treatment of Certain Refunds. If the Administrative Agent or any Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrowers or with respect to which the Borrowers have paid additional amounts pursuant to this Section, it shall pay to the Borrowers an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrowers under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrowers, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrowers (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrowers or any other Person.

3.02 Illegality .

If any Lender determines that any 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 Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate 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. 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 Rate 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 Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrowers shall also pay accrued interest on the amount so prepaid or converted.

3.03 Inability to Determine Rates .

If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrowers and each Lender. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrowers may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for the Borrowing of, or conversion to, Base Rate Loans in the amount specified therein.

3.04 Increased Costs .

(a) Increased Costs Generally . If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Eurodollar Rate);

(ii) subject any Lender to any tax of any kind whatsoever with respect to this Agreement or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender); or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender, or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, the Borrowers will pay to such Lender, as the case may be, such additional amount or amounts as will compensate such Lender, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Commitment of such Lender or the Loan made by such Lender, to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrowers will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrowers shall be conclusive absent manifest error. The Borrower shall pay such Lender, as the case may be, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that the Borrowers shall not be required to compensate a Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that such Lender notifies the Borrowers of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine (9) month period referred to above shall be extended to include the period of retroactive effect thereof).

3.05 Compensation for Losses.

Upon demand of the Administrative Agent from time to time, the Borrowers shall promptly pay to the Administrative Agent, for the account of each Lender, such amount or amounts as the Administrative Agent shall determine in its sole discretion to be sufficient to compensate such Lenders, and hold such Lender harmless from, any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrowers (for a reason other than the failure of such Lender to make its Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrowers; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 10.13;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Not in limitation of the foregoing, such compensation shall include, without limitation, in the case of a Eurodollar Rate Loan, an amount equal to the then present value of (A) the amount of interest that would have accrued on such Eurodollar Rate Loan for the remainder of the Interest Period at the rate applicable to such Eurodollar Rate Loan, less (B) the amount of interest that would accrue on the same Eurodollar Rate Loan for the same period if the Eurodollar Rate were set on the date on which such Eurodollar Rate Loan was repaid, prepaid or converted or the date on which the Borrowers failed to convert or continue such Eurodollar Rate Loan, as applicable, calculating present value by using as a discount rate the Eurodollar Rate quoted on such date. Upon the Borrowers' request, the Administrative Agent shall provide the Borrowers with a statement setting forth the basis for requesting such compensation and the method for determining the amount thereof. Any such statement shall be conclusive absent manifest error. The Borrowers shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrowers to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Base Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 Mitigation Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loan hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrowers hereby agree to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04 and the Required Lenders are not also doing the same, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01 and such amounts are not also being paid to or for the account of the Required Lenders, the Borrower may replace such Lender in accordance with Section 10.13.

3.07 Survival.

All of the Borrowers' obligations under this Article III shall survive repayment of all Obligations hereunder.

ARTICLE IV

CONDITIONS PRECEDENT

4.01 Conditions of Borrowing.

The obligation of each Lender to make its Loan hereunder is subject to satisfaction of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent:

(i) fully executed counterparts of this Agreement and the Guaranty, sufficient in number for distribution to the Administrative Agent, each Lender and the Principal Borrower;

(ii) a Note executed by the Borrowers in favor of each Lender (other than any Lender requesting not to receive a Note);

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each of the Loan Parties is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect (provided, that to the extent such materials were delivered in connection with the Existing Credit Agreement, the Loan Parties (excluding the Borrowers) shall be permitted to provide certificates of no change with respect to such items and shall not be required to provide new good standing or similar certifications from Governmental Authorities;

(v) a favorable opinion of counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, as to the matters set forth in Exhibit H and such other matters concerning the Loan Parties and the Loan Documents as the Required Lenders may reasonably request;

(vi) a certificate of a Responsible Officer of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer of each of the Borrowers certifying (A) that each Consolidated Party is in compliance with all existing financial obligations, (B) all governmental, shareholder and third party consents and approvals necessary for the Loan Parties to enter into the Loan Documents and fully perform thereunder, if any, have been obtained, (C) immediately after giving effect to this Agreement, the other Loan Documents and all the transactions contemplated therein to occur on such date, (1) each of the Loan Parties is solvent, (2) no Default or Event of Default exists, (3) all representations and warranties contained herein and in the other Loan Documents are true and correct in all material respects, and (4) the Loan Parties are in compliance with each of the financial covenants set forth in Section 7.08; (D) that the conditions specified in Sections 4.02(a) and (b) have been satisfied; (E) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect; (F) the current Debt Ratings; and (G) a calculation of the TL/TA Ratio as of the last day of the fiscal quarter of the Principal Borrower most recently ended prior to the Closing Date;

(viii) evidence that the Existing Term Loan Agreement has been or concurrently with the Closing Date is being terminated;

(ix) the Fee Letter;

(x) a Transfer Authorizer Designation Form effective as of the Closing Date; and

(xi) such other assurances, certificates, documents, consents or opinions as the Administrative Agent or the Required Lenders reasonably may require.

(b) There shall not have occurred a material adverse change since December 31, 2009 in the business, assets, operations or condition (financial or otherwise) of the Borrowers and the other Loan Parties taken as a whole, or in the facts and information regarding such entities as represented to date.

(c) There shall not exist any action, suit, investigation, or proceeding pending or threatened, in any court or before any arbitrator or governmental authority that could reasonably be expected to have a Material Adverse Effect.

(d) Any fees required to be paid on or before the Closing Date shall have been paid.

(e) Unless waived by the Administrative Agent, the Borrowers shall have paid all reasonable fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute their reasonable estimate of such fees, charges and disbursements incurred or to be incurred by them through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrowers and the Administrative Agent).

Without limiting the generality of the provisions of Section 9.04, for purposes of determining compliance with the conditions specified in this Section 4.01, 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.

4.02 Additional Conditions to all Loans.

The obligation of each Lender to make its Loan is subject to the following additional conditions precedent:

(a) The representations and warranties of the Borrowers and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of the making of such Loan, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (unless such representation and warranty is subject to a materiality or Material Adverse Effect qualifier in which case it will be true and correct in all respects) on and as of the date of such Credit Extension, it being understood and agreed that any violation of any covenant contained in Section 7.08 shall be deemed material such that any representation with respect to compliance therewith shall be deemed material in any event, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default, Event of Default shall exist and be continuing either prior to or after giving effect to the Loans or from the application of the proceeds thereof.

(c) The Administrative Agent shall have received the Notice of Borrowing in accordance with the requirements hereof, together with a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit A, (i) demonstrating compliance with the financial covenants contained in Section 7.08 hereof by calculation thereof after giving effect to the making of the Loans (and the application of the proceeds thereof), and (ii) stating that no Default or Event of Default.

The Notice of Borrowing submitted by the Borrowers shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02 (a) and (b) have been satisfied on and as of the date of the making of the Loans.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Each of the Borrowers hereby represents and warrants to the Administrative Agent and the Lenders that:

5.01 Existence, Qualification and Power; Compliance with Laws.

Each Loan Party and each Subsidiary thereof (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.02 Authorization; No Contravention .

The execution, delivery and performance by each Loan Party of each Loan Document and the Fee Letter to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any material Contractual Obligation to which such Person is a party or affecting such Person or any real property or any material personal property of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. Each Loan Party and each Subsidiary thereof is in compliance with all Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.03 Governmental Authorization; Other Consents .

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement, any other Loan Document or the Fee Letter.

5.04 Binding Effect .

This Agreement and the Fee Letter have been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement and the Fee Letter constitute, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto 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).

5.05 Financial Statements; No Material Adverse Effect; No Internal Control Event .

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Principal Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of the Principal Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated balance sheet of the Principal Borrower and its Subsidiaries dated September 30, 2010, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Principal Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments. Schedule 5.05 sets forth all material indebtedness and other liabilities, direct or contingent, of the Principal Borrower and its consolidated Subsidiaries as of December 31, 2010, including liabilities for taxes, material commitments and Indebtedness.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(d) To the best knowledge of the Borrowers, since the date of the Audited Financial Statements, no Internal Control Event has occurred, other than as disclosed in reports of the Borrowers filed prior to the date hereof with the SEC.

5.06 Litigation .

There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Borrowers after due and diligent investigation or threatened, at law, in equity, in arbitration or before any Governmental Authority, by or against any Borrower or any of their Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement, any other Loan Document or the Fee Letter, or any of the transactions contemplated hereby, or (b) except as specifically disclosed in Schedule 5.06 , either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect, and there has been no material adverse change in the status, or financial effect on any Loan Party or any Subsidiary thereof, of the matters described on Schedule 5.06 .

5.07 No Default .

Neither the Borrowers nor any of their Subsidiaries is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement, any other Loan Document or the Fee Letter.

5.08 Ownership of Property; Liens .

Each of the Borrowers and each of their Subsidiaries has good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of the Borrowers and their Subsidiaries is subject to no Liens, other than Liens not prohibited by Section 7.01 .

5.09 Environmental Compliance .

Each of the Borrowers and each of their Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrowers have reasonably concluded that, except as specifically disclosed in Schedule 5.09 , such Environmental Laws and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. In furtherance (and not in limitation) of the foregoing, the Borrowers hereby represent and warrant that:

(a) To the best of the Loan Parties' knowledge, there is no violation of any Environmental Law with respect to the facilities and properties owned, leased or operated by the Subject Parties or the businesses operated by the Subject Parties which would, in the aggregate, result in anticipated clean-up costs in excess of \$25,000,000.

(b) No Subject Party has, to the best knowledge of the Borrowers, been notified of any material action, suit, proceeding or investigation which calls into question compliance by any Subject 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 Subject Parties taken as a whole.

5.10 Insurance .

The properties of each of the Borrowers and each of their Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of any Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the applicable Borrower or the applicable Subsidiary operates. The present insurance coverage of the Borrowers and each of their Subsidiaries is outlined as to carrier, policy number, expiration date, type and amount on Schedule 5.10 .

5.11 Taxes.

Each of the Borrowers and each of their Subsidiaries (as applicable) have filed all Federal, state and other material tax returns and reports required to be filed, and have paid all Federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against any Borrower or any of their Subsidiaries that would, if made, have a Material Adverse Effect. Neither any Loan Party nor any Subsidiary thereof is party to any tax sharing agreement.

5.12 ERISA Compliance.

(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 Borrowers, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrowers 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 Borrowers, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could 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 ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrowers nor any ERISA Affiliate has incurred, or reasonably expects to incur, any 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) neither the Borrowers nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrowers nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 Subsidiaries; Equity Interests.

Set forth on Schedule 5.13 is a complete and accurate list of all Subsidiaries of each Consolidated Party and each other Subject Party. Information on Schedule 5.13 includes (a) jurisdiction of incorporation or organization and (b) with respect to any Subsidiary or other Subject Party that is not a Wholly Owned Subsidiary, the number of shares of each class of Equity Interests outstanding, the number and percentage of outstanding shares of each class owned (directly or indirectly) by such Subsidiary or other Subject Party, 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 Equity Interests of all such Subsidiaries and other Subject Parties are 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 as set forth in Schedule 5.13, no Subsidiary or other Subject Party that is not a Wholly Owned Subsidiary has outstanding any securities convertible into or exchangeable for its Equity Interests 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 Equity Interests. Schedule 5.13 may be updated from time to time by the Borrowers by giving written notice thereof to the Administrative Agent.

5.14 Margin Regulations; Investment Company Act.

- (a) The Borrowers are not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.
- (b) None of the Borrowers, any Person Controlling any of the Borrowers, or any Subsidiary of any Borrower is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

5.15 Disclosure.

The Borrowers have disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which they or any of their respective Subsidiaries are subject, and all other matters known to them, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrowers represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws.

Each Borrower and each of their Subsidiaries are in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property; Licenses, Etc.

Each Borrower and each of their Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, “IP Rights”) that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrowers, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrowers or any Subsidiary of any of them infringes upon any rights held by any other Person. Except as specifically disclosed in Schedule 5.17, no claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrowers, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

ARTICLE VI

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, the Borrowers shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, 6.03 and 6.15) cause each of their Subsidiaries to:

6.01 Financial Statements.

Deliver to the Administrative Agent, which in turn will deliver to each Lender, in form and detail satisfactory to the Administrative Agent:

(a) as soon as available, but in any event within 120 days after the end of each fiscal year of the Principal Borrower, a consolidated balance sheet of the Principal Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by (A) a report and opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Required Lenders, which report and opinion shall be prepared in accordance with generally accepted auditing standards and applicable Securities Laws and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and (B) an attestation report of such Registered Public Accounting Firm as to the Principal Borrower's internal controls pursuant to Section 404 of Sarbanes-Oxley;

(b) as soon as available, but in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Principal Borrower, a consolidated balance sheet of the Principal Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Principal Borrower's fiscal year then ended (including applicable 10-Q's and 10-K's), setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, certified by a Responsible Officer of the Principal Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Principal Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

As to any information contained in materials furnished pursuant to Section 6.02(d), the Borrowers shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrowers to furnish the information and materials described in clauses (a) and (b) above at the times specified therein.

6.02 Certificates; Other Information.

Deliver to the Administrative Agent, which in turn will deliver to each Lender, in form and detail satisfactory to the Administrative Agent:

(a) concurrently with the delivery of the financial statements referred to in Section 6.01(a):

(i) a certificate of its independent certified public accountants certifying such financial statements and stating that in making the examination necessary therefor no knowledge was obtained of any Default under the financial covenants set forth herein or, if any such Default shall exist, stating the nature and status of such event;

(ii) a projection of Capital Expenditures for the next fiscal year for each Property of any Subject Party; and

(iii) a forecasted balance sheet and income statement of the Principal Borrower and its Subsidiaries for each of the eight (8) succeeding fiscal quarters, together with related forecasted consolidated statements of operations and of cash sources and uses for each such succeeding fiscal quarter.

(b) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b):

(i) a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit E attached hereto, (A) demonstrating compliance, as of the end of each such fiscal period, with (1) the financial covenants contained in Section 7.08 and (2) 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 Administrative 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), (B) stating that the Loan Parties were in compliance with each of the covenants set forth in Articles VI and VII of this Agreement at all times during such fiscal period; (C) 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 Loan Parties propose to take with respect thereto and (D) including a Quarterly Stock Repurchase/Joinder Statement, together with (1) a certification from a Responsible Officer confirming that, as of the date of the Quarterly Stock Repurchase/Joinder Statement, there exist no Subsidiaries of any Borrower that, pursuant to the terms of the Loan Documents, should be, but have not yet been, joined as Loan Parties and (2) copies of all counterparts to the Guaranty executed by any Person during the immediately preceding fiscal quarter;

(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 Loan Parties with respect to each such Property Under Development and funds expended to date in connection with each such Property Under Development;

(iv) a projection of Dispositions for the next fiscal quarter for each Consolidated Party and each other Subject Party;

(v) a summary of land purchases by the Consolidated Parties and each other Subject Party for the prior quarter;

(vi) a summary of all Net Cash Proceeds received by the Loan 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; and

(vii) a complete list of all Guarantees of the Loan Parties described in clause (a)(iv) of the definition of the term "Guarantee" set forth in Section 1.01 hereof and, for each of such obligations, information as to (A) the amount of leasable space, per square foot rental rate and term applicable to such obligations, (B) any leases or other revenue sources for which the Loan Parties receive credit towards such obligations and (C) any cash reserves being maintained in relation to such obligations and the method of calculation thereof.

(c) promptly after any request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Principal Borrower by independent accountants in connection with the accounts or books of the Principal Borrower or any Subsidiary of any Borrower, or any audit of any of them;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrowers, and copies of all annual, regular, periodic and special reports and registration statements which any of the Borrowers may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Administrative Agent pursuant hereto;

(e) promptly, such additional information regarding the business, financial or corporate affairs of the Principal Borrower or any other Subject Party, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01 or Section 6.02 may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Principal Borrower posts such documents, or provides a link thereto on the Principal Borrower's website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Principal Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrowers shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrowers to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrowers shall notify the Administrative Agent and each Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. The Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrowers with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Borrowers hereby acknowledge that (a) the Administrative Agent and/or the Arranger will make available to the Lenders materials and/or information provided by or on behalf of the Borrowers hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a "Public Lender"). The Borrowers hereby agree that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrowers shall be deemed to have authorized the Administrative Agent, the Arranger and the Lenders to treat such Borrower Materials as not containing any material non-public information with respect to the Borrowers or their respective securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 10.07); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

6.03 Notices.

Promptly notify the Administrative Agent and each Lender:

- (a) of the occurrence of any Default;
- (b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of any Borrower or any Subsidiary of any of them; (ii) any dispute, litigation, investigation, proceeding or suspension between any Borrower or any Subsidiary of any of them and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting any Borrower or any Subsidiary of any of them, including pursuant to any applicable Environmental Laws;
- (c) of the occurrence of any ERISA Event;
- (d) of any material change in accounting policies or financial reporting practices by any Borrower or any Subsidiary of any of them;
- (e) of the occurrence of any Internal Control Event; and
- (f) of any announcement by Moody's or S&P of any change or possible change in a Debt Rating.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Principal Borrower setting forth details of the occurrence referred to therein and stating what action the Borrowers have taken and propose to take with respect thereto. Each notice pursuant to Section 6.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 Payment of Obligations .

Pay and discharge as the same shall become due and payable, all its material obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the applicable Borrower or Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property (except to the extent such Lien would not be prohibited by Section 7.01); and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.05 Preservation of Existence, Etc. .

(a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 7.04 or 7.05;

(b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and

(c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.06 Maintenance of Properties .

(a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted;

(b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and

(c) use the standard of care typical in the industry in the operation and maintenance of its facilities.

6.07 Maintenance of Insurance .

Maintain with financially sound and reputable insurance companies not Affiliates of any Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons and providing for not less than thirty (30) days' prior notice to the Administrative Agent of termination, lapse or cancellation of such insurance.

6.08 Compliance with Laws .

Comply in all material respects with the requirements of all Laws (including, without limitation, all Environmental Laws) and all other orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records .

(a) Maintain proper books of record and account, in which full, true and correct entries in material conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Subsidiary, as the case may be; and

(b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over such Borrower or such Subsidiary, as the case may be.

6.10 Inspection Rights.

Permit representatives appointed by the Administrative Agent, including, without limitation, independent accountants, agents, attorneys, and appraisers to visit and inspect any of its Properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at the expense of the Borrowers and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrowers in a manner that will not unreasonably interfere with such Person's business operations; provided, however, that, so long as no Event of Default then exists or is continuing, such visits and inspections shall not occur more than once per fiscal year of Borrowers; provided, further that while an Event of Default exists, the Administrative Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Borrowers at any time during normal business hours and without advance notice.

6.11 Use of Proceeds.

Use the proceeds of the Loans solely for the following purposes: (a) to pay in full and satisfy all obligations owing under the Existing Term Loan Agreement; (b) to finance the acquisition of real properties; (c) to finance the acquisition of Persons whose primary business is the ownership, leasing and management of real properties; (d) to finance the development of improvements to real properties owned by the Borrowers; (e) to refinance existing Indebtedness; and (f) for working capital and other general corporate purposes; each pursuant to the terms hereof or of the other Loan Documents.

6.12 Additional Guarantors ; Release of Guarantors .

(a) If any Person (other than a Non-Guarantor Subsidiary) becomes a Subsidiary of any Loan Party or upon the formation of any Preferred Stock Subsidiary or if at any time any Non-Guarantor Subsidiary qualifying as such as a result of clauses (a), (b) or (c) of the definition thereof could become a Loan Party without violating the terms of any material contract, agreement or document to which it is a party, the Principal Borrower shall (i) if such Person is a Domestic Subsidiary of a Loan Party or a Preferred Stock Subsidiary, cause such Person to become a Guarantor by executing and delivering to the Administrative Agent a counterpart of the Guaranty or such other document as the Administrative Agent shall deem appropriate for such purpose, (ii) 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 6.12(b)(iii), and (iii) cause such Person to deliver to the Administrative Agent documents of the types referred to in clauses (iii) and (iv) of Section 4.01(a), all in form, content and scope reasonably satisfactory to the Administrative Agent; provided, that to the extent such Person holds (whether upon delivery of the items required above or at any time after the delivery of the items required above) assets with a fair market value in excess of \$5,000,000 or to the extent requested by Administrative Agent, the Borrowers shall cause to be delivered to the Administrative Agent 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 in this clause (a)). If a Non-Guarantor Subsidiary executes and delivers the Guaranty it shall no longer be deemed a Non-Guarantor Subsidiary under this Credit Agreement.

(b) Notwithstanding any other provisions of this Agreement to the contrary, to the extent a Guarantor anticipates becoming or intends to become a Non-Guarantor Subsidiary pursuant to any of clauses (b), (c) or (d) of the definition thereof, the Principal Borrower may request a release of such Guarantor as a Guarantor hereunder in accordance with the following:

(i) the Principal Borrower shall deliver to the Administrative Agent, not less than ten (10) days and not more than thirty (30) days prior to the anticipated or intended conversion of a Guarantor into a Non-Guarantor Subsidiary, a written request for release of the applicable Guarantor and a pro forma compliance certificate of the chief financial officer of the Principal Borrower in form and substance acceptable to the Administrative Agent, (A) demonstrating that upon such release the Loan Parties

will on a pro forma basis continue to comply with (1) the financial covenants contained in Section 7.08 and (2) 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 a reasonably detailed calculation thereof (which calculation shall be in form reasonably satisfactory to the Administrative 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), (B) stating that the Loan Parties will be in compliance with each of the covenants set forth in Articles VI and VII of the Agreement at all times following such release, (C) stating that, following such release, no Default or Event of Default will exist under the Agreement or any of the other Loan Documents, or if any Default or Event of Default will exist, specifying the nature and extent thereof and what action the Loan Parties propose to take with respect thereto, and (D) attaching, pursuant to Section 5.13 of the Agreement, an updated version of Schedule 5.13 to the Agreement;

(ii) the Administrative Agent shall have reviewed and approved (in writing) the request for release and pro forma compliance certificate delivered pursuant to subclause (i) above; provided, that the failure of the Administrative Agent to respond to such a request within ten (10) Business Days of its receipt thereof shall constitute the Administrative Agent's approval thereof; provided, that any approval of the Administrative Agent provided pursuant to this subclause (ii) shall lapse and be null and void thirty (30) days following the granting thereof if the applicable Guarantor has not, on or prior to the completion of such period, met the criteria for qualification as a Non-Guarantor Subsidiary (as evidenced by the delivery by the Principal Borrower of a notice and certification in accordance with subclause (iii) below); and

(iii) the Principal Borrower shall, concurrently with or promptly following the applicable Guarantor's satisfaction of the criteria for qualification as a Non-Guarantor Subsidiary deliver to the Administrative Agent a notice and certification of such qualification.

Notwithstanding any language to the contrary above, so long as the chief financial officer of the Principal Borrower has certified in a compliance certificate (and the Administrative Agent has no evidence or information which brings into reasonable doubt the veracity of such certifications) that: (A) upon such release the Loan Parties (1) will on a pro forma basis continue to comply with the financial covenants contained in Section 7.08 hereof, and the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party, and (2) will be in compliance with each of the covenants set forth in Articles VI and VII of the Agreement at all times following such release, (B) following such release, no Default or Event of Default will exist under the Credit Agreement or any of the other Loan Documents, or if any Default or Event of Default will exist, the nature and extent thereof and what action the Loan Parties propose to take with respect thereto will be specified, and (C) attached pursuant to Section 5.13 of the Agreement, is an updated version of Schedule 5.13 to the Agreement, the request for release shall be approved and issued by the Administrative Agent within the 10-day time period specified in subsection (b)(ii).

Upon satisfaction of each of the above-noted conditions, a Guarantor shall be deemed released from its obligations hereunder and under each of the Loan Documents.

6.13 Non-Guarantor Subsidiary Cash Flows .

Each Loan Party shall, to the extent it exercises sufficient control over the activities of the applicable Non-Guarantor Subsidiary(ies), cause all NGS Excess Cash Flow of each Non-Guarantor Subsidiary to be transferred to a Loan Party as promptly as possible but at least once a month.

6.14 REIT Status .

Take all action necessary to maintain Highwoods Properties' status as a REIT.

6.15 Environmental Matters .

(a) Reimburse the Administrative Agent and Lenders for and hereby hold the Administrative Agent and Lenders harmless from all fines or penalties made or levied against the Administrative Agent or any of the Lenders by any Governmental Authority as a result of or in connection with (i) the use of Hazardous Materials at the Properties, (ii) the use of Hazardous Materials at the facilities thereon, or (iii) the use, generation, storage, transportation, discharge, release or handling of any Hazardous Materials at the Properties, or as a result of any release of any Hazardous Materials onto the ground or into the water or air from or upon the Properties at any time. The Loan Parties also agree that they will

reimburse the Administrative Agent and Lenders for and indemnify and hold the Administrative Agent and Lenders harmless from any and all costs, expenses (including reasonable attorneys' fees actually incurred) and for all civil claims, judgments or penalties incurred entered, assessed, or levied against the Administrative Agent or any of the Lenders as a result of any of the Loan Parties' use of Hazardous Materials at the Properties or as a result of any release of any Hazardous Materials on the ground or into the water or air by any of the Loan 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 Loan Parties from or upon Properties and all reasonable expenses incurred by the Administrative Agent or any of the Lenders as a result of such a civil action, including but not limited to reasonable attorneys' fees. The Loan Parties' obligations under this section shall survive the repayment of the Loans and be in supplement of any and all other reimbursement or indemnity obligations of the Borrowers set forth herein.

(b) If the Administrative Agent requests in writing and if (i) the applicable Borrower or Subsidiary does not have environmental insurance with respect to any property owned, leased or operated by a Subject Party or (ii) the Administrative Agent has reason to believe that there exist Hazardous Materials on any property owned, leased or operated by a Subject Party which materially affect the value of such property and with respect to which the Borrowers have not furnished a report within the immediately previous twelve (12) month period, 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 applicable Subject Party(ies) 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 hereof, the Borrowers shall provide such report regardless of whether either of the conditions set forth in subsections (i) and (ii) above have 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 parties hereto hereby grant to the Administrative Agent and their representatives or shall attempt in good faith to cause the applicable Subject Party(ies) to so grant 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).

(c) Conduct and complete (or use good faith efforts to cause to be conducted and completed) all investigations, studies, sampling, and testing and all remedial, removal, and other actions necessary to address all Hazardous Materials on, from, or affecting any Property 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.

(d) Provide upon such Person's receipt thereof all insurance certificate(s) evidencing the environmental insurance held by any Person with respect to any of the Properties.

ARTICLE VII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder or any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, the Borrowers shall not, nor shall they permit any of their respective Subsidiaries to, directly or indirectly:

7.01 Liens.

Contract, create, incur, assume or permit to exist any Lien with respect to any of its other property, assets or revenues or the property, assets or revenues of any other Person, whether now owned or hereafter acquired, if the Indebtedness underlying such Lien would cause the Borrowers to be in violation of Section 7.08(c) hereof.

7.02 Fundamental Changes .

Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

- (a) any Borrower may merge with any other Borrower or may Dispose of all or substantially all of its assets to any other Borrower;
- (b) any Subsidiary may merge with (i) a Borrower, provided that such Borrower shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries, provided that when any Guarantor is merging with another Subsidiary, the Guarantor shall be the continuing or surviving Person;
- (c) any Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Borrower or to another Subsidiary; provided that if the transferor in such a transaction is a Guarantor, then the transferee must either be the Borrower or a Guarantor;
- (d) any of the Borrowers (other than the Principal Borrower and Highwoods Realty Limited Partnership) or Guarantors may be merged into or consolidated with any other Borrower or Guarantor so long as the surviving entity is a Borrower or Guarantor; and
- (e) all or substantially all of the assets or all of the Equity Interests of a Subsidiary may be Disposed of to the extent such Disposition is permitted pursuant to Section 7.03.

7.03 Dispositions .

Make any Disposition or enter into any agreement to make any Disposition, except:

- (a) Dispositions of obsolete or worn out property, or property no longer used or useful, whether now owned or hereafter acquired, in the ordinary course of business;
- (b) Dispositions of inventory in the ordinary course of business;
- (c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;
- (d) Dispositions of property by any Subsidiary to the Borrowers or to any wholly-owned Subsidiary thereof; provided that if the transferor of such property is a Guarantor, the transferee thereof must either be a Borrower or a Guarantor;
- (e) Dispositions permitted by Section 7.02(a) – (d);
- (f) Dispositions by the Borrowers and their Subsidiaries of any property (whether in one transaction or in several related transactions), the aggregate fair market value of which is less than \$100,000,000; and
- (g) Dispositions in which the fair market value of the assets subject to such Disposition exceeds \$100,000,000, if and to the extent the Principal Borrower shall have delivered to the Administrative Agent at least two (2) Business Days prior to such Disposition a Pro Forma Compliance Certificate demonstrating that, upon giving effect to such Disposition, on a pro forma basis, the Borrowers shall be in compliance with all of the covenants contained in Section 7.08;

provided, however, that any Disposition pursuant to clauses (a) through (g) above shall be for fair market value.

7.04 Change in Nature of Business.

Engage in any material line of business substantially different from those lines of business conducted by the Borrowers and their Subsidiaries on the date hereof or any business substantially related or incidental thereto.

7.05 Transactions with Affiliates.

Except as otherwise contemplated or permitted pursuant to Section 7.02, enter into any transaction of any kind with any Affiliate of any Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to such Borrower or such Subsidiary as would be obtainable by such Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate.

7.06 Burdensome Agreements.

Enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments to any Borrower or any Guarantor or to otherwise transfer property to any Borrower or any Guarantor, (ii) of any Subsidiary to Guarantee the Indebtedness of the Borrowers or (iii) of any Borrower or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person; provided, however, that this clause (iii) shall not prohibit any Negative Pledge incurred or provided in favor of any holder of Indebtedness permitted hereunder solely to the extent any such Negative Pledge relates to the property financed by or the subject of such Indebtedness; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person; provided, that this Section 7.06 shall not be deemed to restrict the ability of any Non-Guarantor Subsidiary from entering into Contractual Obligations of any type related to secured financing transactions.

7.07 Use of Proceeds.

Use the proceeds of any Loan, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

7.08 Financial Covenants.

- (a) Permit, at any time during the term hereof, the TL/TA Ratio to be greater than 0.60x.
- (b) Permit, at any time during the term hereof, the ratio of Unencumbered Asset Value to Recourse Debt to be less than 1.75x.
- (c) Permit, at any time during the term hereof, the ratio of Secured Debt to Total Asset Value to be greater than 0.35x.
- (d) Permit, at any time during the term hereof, the ratio of Adjusted EBITDA for the immediately preceding twelve (12) months to Fixed Charges for such period to be less than 1.50x.
- (e) Permit, at any time during the term hereof, the ratio of Annualized Adjusted NOI from Unencumbered Assets (to the extent such Unencumbered Assets are Income Producing Properties) to Interest Expense with respect to Unsecured Debt for the immediately preceding 12 months, to be less than 2.00x.
- (f) Permit, at any time during the term hereof, Tangible Net Worth to be less than 85% of actual Tangible Net Worth as of December 31, 2010, plus 85% of Net Cash Proceeds of any Equity Issuance occurring after December 31, 2010 (except to the extent such Net Cash Proceeds are used to cash out or otherwise retire pre-existing Equity Interests of one or more of the Borrowers within a calendar year of the receipt of such proceeds).
- (g) Permit, at any time during the term hereof:

(i) the ratio of (x) the Value of all Non-Income Producing Properties to (y) Total Asset Value to, at any time, be greater than 25%;

(A) the ratio of (x) the Value of Speculative Land to (y) Total Asset Value to, at any time, be greater than seven and one half of one percent (7.5%); and

(B) the ratio of (x) the Value of Properties Under Development (including Pre-Leased Development Properties) to (y) Total Asset Value to, at any time, be greater than ten percent (10.0%); and

(ii) the ratio of (x) the Value of Income Producing Properties other than (1) “for lease” office and industrial properties and (2) the CC Plaza Project to (y) Total Asset Value to be, at any time, greater than fifteen percent (15.0%).

(h) Permit Restricted Payments, for any twelve (12) month period, to exceed an amount equal to (i) ninety-five percent (95.0%) multiplied by (ii) FFO for such period; provided, that the Principal Borrower shall, in addition to the Restricted Payments permitted above, be permitted to make Restricted Payments (1) in any amount for the purpose of repurchasing or otherwise redeeming shares of its outstanding preferred stock to the extent such Restricted Payments are made from the proceeds of an Equity Issuance within one year of the receipt of such proceeds, (2) in an aggregate amount equal to not more than \$50,000,000 during the period commencing on the Closing Date through and including the Maturity Date for the purpose of repurchasing or otherwise redeeming Equity Interests to the extent the funds for such repurchases/redemptions arise from Disposition proceeds and (3) to the extent no Default is then-continuing or will result from the making of such Restricted Payment, in such amounts as may be necessary in order to maintain REIT status.

(i) Permit, at any time, the Total Asset Value attributable to assets held by parties that are not Consolidated Parties to exceed twenty percent (20.0%) of Total Asset Value.

7.09 Organizational Documents; Ownership of Subsidiaries .

(a) Permit any Loan Party to (i) amend, modify, waive or change its Organization Documents in a manner materially adverse to the Lenders or in a manner that permits any Person to, at any time, own more than twenty-five percent (25.0%) of the voting equity securities of the Principal Borrower, or (ii) create, acquire or permit to exist or permit or cause any of their Subsidiaries to create, acquire or permit to exist, any Foreign Subsidiaries.

(b) Notwithstanding any other provisions of this Agreement to the contrary, permit any Consolidated Party other than Highwoods Properties, Highwoods Realty or any Preferred Stock Subsidiary to issue any shares of preferred Equity Interests to any Person other than a Loan Party. Furthermore, Highwoods Realty and Highwoods Properties shall at all times maintain ownership, directly or indirectly, all of the Equity Interests of AP Southeast Portfolio Partners, L.P., a Delaware limited partnership and Highwoods Realty GP Corp., a Delaware corporation, except to the extent any such entity is merged with a Borrower or Guarantor in accordance with the provisions of Section 7.04 hereof.

7.10 Non-Guarantor Subsidiary Restrictions .

Notwithstanding any other provision of this Agreement, the Loan Parties shall prohibit any Non-Guarantor Subsidiary from incurring any Indebtedness that is recourse to any Loan Party, other than Indebtedness in the form of customary non-recourse carve-outs for fraud, misapplication of funds, environmental indemnities, and other similar exceptions to non-recourse provisions (including exceptions relating to bankruptcy, insolvency, receivership, non-approved transfers or other similar events).

7.11 Negative Pledges .

Enter into, assume or become subject to any Negative Pledge or any other 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 that does not result in any violation of the covenants set forth in Section 7.08 hereof and is not otherwise prohibited by this Agreement or any other Loan Document, provided that any such restriction contained therein relates only to the properties or assets constructed or acquired in connection with such Indebtedness.

7.12 Sale Leasebacks .

Except as could not reasonably be expected to have a Material Adverse Effect, 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 Person has sold or transferred or is to sell or transfer to a Person which is not a Consolidated Party or (b) which such Person 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 Person to another Person which is not a Consolidated Party in connection with such lease.

7.13 Prepayments of Indebtedness, etc.

(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 of such Person 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.

7.14 Anti-Terrorism Laws; FCPA .

(a) Be an “enemy” or an “ally of the enemy” within the meaning of Section 2 of the Trading with the Enemy Act of the United States of America (50 U.S.C. App. §§ 1 *et seq.*), as amended. Neither any Loan Party nor any of its Subsidiaries is in violation of (i) the Trading with the Enemy Act, as amended, (ii) any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto or (iii) the Act (as defined in Section 10.17); or

(b) fail to be in compliance with the Foreign Corrupt Practices Act, 15 U.S.C. §§ 78dd-1, *et seq.*, and any foreign counterpart thereto.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default .

Any of the following shall constitute an Event of Default:

(a) Non-Payment. Any Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan, or (ii) within three (3) days after the same becomes due, any interest on any Loan, or any fee due hereunder, or (iii) within five (5) days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. The Borrowers fail to perform or observe any term, covenant or agreement contained in any of Section 6.01, 6.02, 6.03, 6.05, 6.07 (with respect to maintenance of insurance), 6.10, 6.11 or 6.12 or Article VII or the Guaranty given by any Guarantor or any provision thereof shall cease to be in full force and effect (other than as a result of a release of the applicable Guarantor in accordance with the terms and conditions hereof), or any Guarantor 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 ; provided , however , that if the Borrowers default in performance or observance of any financial covenant set forth in Section 7.08 hereof solely as a result of an adjustment of the Capitalization Rate by the Lenders in accordance with the terms of the definition of such term (and for no other reason), such resultant violation of such financial covenants shall not constitute an Event of Default hereunder to the extent the Borrowers cure such violations within a period of one hundred twenty (120) days following such adjustment; or

(c) Other Defaults . (A) Any insurance company with which the Borrowers maintain insurance ceases to be financially sound and reputable, as required by Section 6.07, and such failure continues for ten (10) days or (B) any Loan Party fails to (i) perform or observe any other covenant or agreement (not specified in subsection (a), (b) and/or (c)(A) above) contained herein on its part to be performed or observed and such failure continues for thirty (30) days or (ii) fails to perform or observe any other covenant or agreement in any other Loan Document within the grace or cure period provided for therein (or, if no such grace or cure period is specified, within thirty (30) days of the occurrence of such failure); or

(d) Representations and Warranties . Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Borrowers or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading when made or deemed made; or

(e) Cross-Default .

(i) The Borrowers or any Subsidiary of any of them: (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any Indebtedness or Guarantee having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or

(ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which any Borrower or any Subsidiary of any of them is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which any Borrower or any Subsidiary of any of them is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of their Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for sixty (60) calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Any Borrower or any Subsidiary or any of them becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(h) Judgments. There is entered against any Borrower or any Subsidiary of any of them (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of thirty (30) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Borrower 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 the Threshold Amount; or

(j) Invalidity of Loan Documents. Any material provision of any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document; or

(k) Change of Control. There occurs any Change of Control.

8.02 Remedies Upon Event of Default.

If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the Commitment of each Lender to make Loans to be terminated, whereupon such Commitments shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and

(c) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to any Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make a Loan shall automatically terminate, or if the Loans have been made the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, in each case without further act of the Administrative Agent or any Lender.

8.03 Application of Funds .

After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable), any amounts received on account of the Obligations shall be applied by the Administrative Agent in the following order:

First , to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second , to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders (including fees, charges and disbursements of counsel to the respective Lenders (including fees and time charges for attorneys who may be employees of any Lender) and amounts payable under Article III), ratably among them in proportion to the respective amounts described in this clause Second payable to them;

Third , to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and other Obligations, ratably among the Lenders in proportion to the respective amounts described in this clause Third payable to them;

Fourth , to payment of that portion of the Obligations constituting unpaid principal of the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them; and

Last , the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

ARTICLE IX

ADMINISTRATIVE AGENT

9.01 Appointment and Authority .

Each of the Lenders hereby irrevocably appoints Wells Fargo Bank, National Association to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. Without limiting the generality of the foregoing, the use of the terms “Agent”, “Administrative Agent”, “agent” and similar terms in the Loan 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, use of such terms is merely a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders and neither the Borrowers nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions.

9.02 Rights as a Lender .

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with any Borrower or any Subsidiary or Affiliate of any of them as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.03 Exculpatory Provisions .

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

- (a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;
- (b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and
- (c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Borrower or any Subsidiary or Affiliate of any of them that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final non-appealable judgment. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless the Administrative Agent has received notice from a Lender or the Principal Borrower referring to this Agreement, describing with reasonable specificity such Default and stating that such notice is a “notice of default.”

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

9.04 Reliance by Administrative Agent .

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) reasonably believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and reasonably believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Loan. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrowers), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties .

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent and shall not be responsible for the negligence or misconduct of any sub-agent that it selects in the absence of gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final non-appealable judgment. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

9.06 Resignation of Administrative Agent .

The Administrative Agent (a) may at any time give notice of its resignation to the Lenders and the Borrowers or (b) may be removed as administrative agent by all of the Lenders (other than the Lender then acting as Administrative Agent) and the Borrowers upon 30 days' prior written notice if the Administrative Agent (i) is found by a court of competent jurisdiction in a final, non-appealable judgment to have committed gross negligence or willful misconduct in the course of performing its duties hereunder or (ii) has become or is insolvent or has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment. Upon any such resignation or removal, the Required Lenders shall have the right, in consultation with the Principal Borrower, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the current Administrative Agent gives notice of its resignation or after the current Administrative Agent has received notice of its removal as provided above, then the current Administrative Agent may on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the Administrative Agent shall notify the Borrowers and the Lenders that no qualifying Person has accepted such appointment, then such resignation or removal shall nonetheless become effective in accordance with such notice and (1) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders under any of the Loan Documents, the retiring or removed Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed Administrative Agent, and the retiring or removed Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrowers to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrowers and such successor.

After the retiring or removed Administrative Agent's resignation or removal hereunder and under the other Loan Documents, the provisions of this Article IX and Section 10.04 shall continue in effect for the benefit of such retiring or removed Administrative Agent, its sub agents and its respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring or removed Administrative Agent was acting as Administrative Agent.

9.07 Non-Reliance on Administrative Agent and Other Lenders .

Each of the Lenders expressly acknowledges and agrees that neither the Administrative Agent nor any of its officers, directors, employees, agents, counsel, attorneys-in-fact or other Affiliates has made any representations or warranties to such Lender and that no act by the Administrative Agent hereafter taken, including any review of the affairs of the Borrowers, any other Loan Party or any of their respective Subsidiaries or Affiliates, shall be deemed to constitute any such representation or warranty by the Administrative Agent to any Lender. Each of the Lenders acknowledges that it has made its own credit and legal analysis and decision to enter into this Agreement and the transactions contemplated

hereby, independently and without reliance upon the Administrative Agent, any other Lender or counsel to the Administrative Agent, or any of their respective officers, directors, employees, agents or counsel, and based on the financial statements of the Borrowers, the other Loan Parties, and their respective Subsidiaries and Affiliates, and inquiries of such Persons, its independent due diligence of the business and affairs of the Borrowers, the other Loan Parties, their respective Subsidiaries and other Persons, its review of the Loan Documents, the legal opinions required to be delivered to it hereunder, the advice of its own counsel and such other documents and information as it has deemed appropriate. Each of the Lenders also acknowledges that it will, independently and without reliance upon the Administrative Agent, any other Lender or counsel to the Administrative Agent or any of their respective officers, directors, employees and agents, and based on such review, advice, documents and information as it shall deem appropriate at the time, continue to make its own decisions in taking or not taking action under the Loan Documents. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by the Borrowers or any other Loan Party of the Loan Documents or any other document referred to or provided for therein or to inspect the properties or books of, or make any other investigation of, the Borrowers, any other Loan Party or any of their respective Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent under this Agreement or any of the other Loan Documents, the Administrative Agent shall have no duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Borrowers, any other Loan Party or any other Subsidiary or Affiliate thereof which may come into possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or other Affiliates. Each of the Lenders acknowledges that the Administrative Agent's legal counsel in connection with the transactions contemplated by this Agreement is only acting as counsel to the Administrative Agent and is not acting as counsel to any Lender.

9.08 No Other Duties, Etc.

Anything herein to the contrary notwithstanding, none of the Sole Bookrunner, Arranger or other titles as necessary listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

9.09 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 Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan 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 and all other 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 Sections 2.09 and 10.04) 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 Sections 2.06 and 10.04.

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.

9.10 Guaranty Matters.

The Lenders irrevocably authorize the Administrative Agent to release any Guarantor from its obligations hereunder and under each of the other Loan Documents to the extent (a) such release is requested by such Guarantor and the Principal Borrower in accordance the provisions set forth in Section 6.12(b) hereof and upon the satisfaction of the conditions set forth in such Section 6.12(b) (as reasonably determined by the Administrative Agent) or (b) if such Guarantor ceases to be a Subsidiary as a result of a transaction permitted hereunder. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to grant releases and terminations pursuant to this Section 9.10. Further, the Administrative Agent is hereby authorized by the Lenders, upon the request of any Guarantor released pursuant to Section 6.12(b) hereof, to execute and deliver to such Guarantor a document (in form and substance acceptable to the Administrative Agent) evidencing such release.

ARTICLE X

MISCELLANEOUS

10.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrowers or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrowers or the applicable Loan Party, as the case may be, and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

- (a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender;
- (b) extend or increase the Commitment of any Lender (or reinstate any Commitment of any Lender terminated pursuant to Section 8.02) without the written consent of such Lender;
- (c) postpone any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document, or waive any Default or Event of Default occurring under Section 8.01(a), without the written consent of each Lender directly affected thereby;
- (d) reduce the principal of, or the rate of interest specified herein on, any Loan or (subject to clause (v) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document, or change the manner of computation of any financial ratio (including any change in any applicable defined term) used in determining the Applicable Rate that would result in a reduction of any interest rate on any Loan or any fee payable hereunder without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrowers to pay interest at the Default Rate;
- (e) change Section 2.10 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;
- (f) change any provision of this Section or the definitions of "Required Lenders", "Supermajority Lenders", or "Defaulting Lender" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Lender; or

(g) release (other than in accordance with the provisions of Section 9.10 hereof) any Guarantor from the Guaranty or otherwise modify the material provisions thereof without the written consent of each Lender;

and, provided further, that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder.

10.02 Notices; Effectiveness; Electronic Communication.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to any of the Borrowers or the Administrative Agent, to the address, telecopier number, electronic mail address or telephone number specified for the Principal Borrower on Schedule 10.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrowers may, in their respective discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrowers, any Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrowers' or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrower, any Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. . Each of the respective Borrowers and the Administrative Agent may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrowers and the Administrative Agent. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent and Lenders . The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Notices of Continuation and Notices of Conversion) purportedly given by or on behalf of the Borrowers even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrowers shall indemnify the Administrative Agent, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrowers. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

(f) Delivery of Consents/Responses by Lenders . To the extent any consent, acknowledgement, agreement or response is requested by the Administrative Agent from one or more of the Lenders hereunder, unless otherwise specified in such request (as determined in the discretion of the Administrative Agent), such Lenders shall respond to any such request within ten (10) Business Days (or such lesser or greater period as may be specifically required under the express terms of the Loan Documents). If a Lender fails to respond within the applicable time period, then such Lender shall be deemed to have approved the requested consent, acknowledgement, agreement or response; provided, however, that this sentence shall not apply to amendments, waivers or consents that require the written consent of each Lender, or each Lender directly affected thereby, pursuant to any of subsections (a) through (g) of Section 10.01.

10.03 No Waiver; Cumulative Remedies .

No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 Expenses; Indemnity; Damage Waiver .

(a) Costs and Expenses . The Borrowers shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement, the other Loan Documents, the Fee Letter or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent or any Lender (including the fees, charges and disbursements of any counsel for the Administrative Agent or any Lender), and shall pay all fees and time charges for attorneys who may be employees of the Administrative Agent or any Lender, in connection with the enforcement or protection of its rights (A) in connection with this Agreement, the other Loan Documents and the Fee Letter, including its rights under this Section, or (B) in connection with the Loans made hereunder, including all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) Indemnification by the Borrower . The Borrowers shall indemnify the Administrative Agent (and any sub-agent thereof), each Arranger, each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an “ Indemnatee ”) against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the reasonable fees, charges and disbursements of any counsel for any Indemnatee), and shall indemnify and hold harmless each Indemnatee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnatee, incurred by any Indemnatee or asserted against any Indemnatee by any third party or by the Borrowers or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrowers or any of their Subsidiaries, or any Environmental Liability related in any way to the Borrowers or any of their Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrowers or any other Loan Party, and regardless of whether any Indemnatee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnatee; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee or (y) result from a claim brought by the Borrowers or any other Loan Party against an Indemnatee for breach in bad faith of such Indemnatee’s obligations hereunder or under any other Loan Document, if the Borrowers or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Reimbursement by Lenders . To the extent that the Borrowers for any reason fail to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof) or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent) or such Related Party, as the case may be, such Lender’s Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent), or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.09(d) .

(d) Waiver of Consequential Damages, Etc . To the fullest extent permitted by applicable law, the Borrowers shall not assert, and hereby waive, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnatee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments . All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(f) Survival . The agreements in this Section shall survive the resignation of the Administrative Agent, the replacement of any Lender and the repayment, satisfaction or discharge of all the other Obligations.

10.05 Payments Set Aside .

To the extent that any payment by or on behalf of the Borrowers is made to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

10.06 Successors and Assigns .

(a) Successors and Assigns Generally . The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Borrowers nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and, subject to the last sentence of the immediately following subsection (b), any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders . Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loan at the time owing to it); provided that

(i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment or the Loan at the time owing to it, the principal outstanding balance of the Loan of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Principal Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met; provided, further, however, that if after giving effect to such assignment, the amount of the Commitment held by such assigning Lender or the outstanding principal balance of the Loan of such assigning Lender, as applicable, would be less than \$5,000,000, then such assigning Lender shall assign the entire amount of its Commitment or its Loan, as applicable, at the time owing to it;

(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to its Loan assigned;

(iii) any assignment of a Commitment or a Loan must be approved by the Administrative Agent (such approval not to be unreasonably withheld or delayed) unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$4,500, and the Eligible Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrowers (at their expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, the principal amount of the Loan owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrowers, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by each of the Principal Borrower at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender may request and receive from the Administrative Agent a copy of the Register.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person, any Borrower or any of the Borrowers' Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of the Loan owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrowers, the Administrative Agent and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. Subject to subsection (e) of this Section, the Borrowers agree that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.10 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Principal Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Principal Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrowers, to comply with Section 3.01(e) as though it were a Lender.

(f) **Certain Pledges.** Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

10.07 Treatment of Certain Information; 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 Affiliates (including the Arranger) and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (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 purporting to have jurisdiction over it (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 hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other 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 derivative transaction relating to the Borrowers and their obligations, (g) with the consent of the Borrowers or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent or any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrowers.

For purposes of this Section, "Information" means all information received from the Borrowers or any Subsidiary of any them relating to the Borrowers or any Subsidiary of any of them or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrowers or any Subsidiary of any of them, provided that, in the case of information received from the Borrowers or any Subsidiary of any of them 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.

Each of the Administrative Agent and the Lenders acknowledges that (a) the Information may include material non-public information concerning the Borrowers or a Subsidiary of any of them, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

10.08 Right of Setoff.

If an Event of Default shall have occurred and be continuing, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, subject to receipt of the prior written consent of the Required Lenders exercised in their sole discretion, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of the Borrowers or any other Loan Party against any and all of the obligations of the Borrowers or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrowers or such Loan Party may be contingent or unmatured or are owed to a branch or office of such Lender different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or their respective Affiliates may have. Each Lender agrees to notify the Borrowers and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.09 Interest Rate Limitation .

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the “ Maximum Rate ”). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrowers. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.10 Counterparts; Integration; Effectiveness .

This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

10.11 Survival of Representations and Warranties .

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of the Borrowing or any conversion or continuation, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.

10.12 Severability .

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.13 Replacement of Lenders .

If any Lender requests compensation under Section 3.04 , or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01 , or a Lender (a “ Non-Consenting Lender ”) does not consent to a proposed change, waiver, discharge or termination with respect to any Loan Document that has been approved by the Administrative Agent and Required Lenders as provided in Section 10.01 but requires unanimous consent of all Lenders or all Lenders directly affected thereby (as applicable) then the Borrowers may, at their sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrowers shall have paid to the Administrative Agent the assignment fee specified in Section 10.06(b) ;
- (b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loan, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts);
- (c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01 , such assignment will result in a reduction in such compensation or payments thereafter; and
- (d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

10.14 Governing Law; Jurisdiction; Etc .

(a) GOVERNING LAW . THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NORTH CAROLINA.

(b) SUBMISSION TO JURISDICTION . THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NORTH CAROLINA SITTING IN MECKLENBURG COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE WESTERN DISTRICT OF NORTH CAROLINA, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE FEE LETTER, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NORTH CAROLINA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE FEE LETTER IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.15 Waiver of Jury Trial.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE FEE LETTER OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE FEE LETTER BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.16 No Advisory or Fiduciary Responsibility.

In connection with all aspects of each transaction contemplated hereby, the Borrowers acknowledge and agree, and acknowledges their Affiliates' understanding, that: (i) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Borrowers, each other Loan Party and their respective Affiliates, on the one hand, and the Administrative Agent and the Arranger, on the other hand, and each Borrower and each other Loan Party is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, the Administrative Agent and the Arranger each is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrowers, any other Loan Party or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (iii) neither the Administrative Agent nor the Arranger has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Borrowers or any other Loan Party with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Administrative Agent or the Arranger has advised or is currently advising the Borrowers, any other Loan Party or any of their respective Affiliates on other matters) and neither the Administrative Agent nor the Arranger has any obligation to the Borrowers, any other Loan Party or any of their respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Administrative Agent and the Arranger and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrowers, the other Loan Parties and their respective Affiliates, and neither the Administrative Agent nor the Arranger has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Administrative Agent and the Arranger have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Borrowers and the other Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. Each of the Borrowers hereby waives and releases, to the fullest extent permitted by law, any claims that it may have against the Administrative Agent and the Arranger with respect to any breach or alleged breach of agency or fiduciary duty.

10.17 USA PATRIOT Act Notice .

Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

10.18 Time of the Essence .

Time is of the essence of the Loan Documents.

10.19 Entire Agreement .

THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE FEE LETTER REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[remainder of page left intentionally blank – signature pages, exhibits and schedules to follow]

TERM LOAN AGREEMENT
HIGHWOODS PROPERTIES, INC.

IN WITNESS WHEREOF, the parties hereto have caused this Term Loan Agreement to be duly executed as of the date first above written.

BORROWERS:

HIGHWOODS REALTY LIMITED PARTNERSHIP

By: Highwoods Properties, Inc.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS SERVICES, INC.

By: /s/ Jeffrey D. Miller

Name: Jeffrey D. Miller

Title: Vice President, General Counsel and Secretary

(Signatures continued on next page)

TERM LOAN AGREEMENT
HIGHWOODS PROPERTIES, INC.

LENDERS/AGENTS:

WELLS FARGO BANK, NATIONAL ASSOCIATION
in its capacity as Administrative Agent
and individually in its capacity as a Lender

By: _____/s/ Authorized Signatory_____

Name:

Title:

HIGHWOODS PROPERTIES, INC.

RATIO OF EARNINGS TO FIXED CHARGES AND

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND

PREFERRED STOCK DIVIDENDS

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Earnings:					
Income from continuing operations before equity in earnings of unconsolidated affiliates	\$ 68,157	\$ 42,010	\$ 32,730	\$ 37,018	\$ 21,530
Fixed charges	96,315	92,968	108,271	111,478	106,576
Capitalized interest	(1,419)	(4,555)	(8,312)	(9,743)	(5,002)
Distributions of earnings from unconsolidated affiliates	4,433	4,180	5,994	4,462	7,748
Total earnings	<u>\$ 167,486</u>	<u>\$ 134,603</u>	<u>\$ 138,683</u>	<u>\$ 143,215</u>	<u>\$ 130,852</u>
Fixed charges and Preferred Stock dividends:					
Contractual interest expense	\$ 87,726	\$ 81,982	\$ 92,858	\$ 93,975	\$ 93,634
Amortization of deferred financing costs	3,385	2,760	2,716	2,415	2,375
Financing obligations interest expense	2,261	2,063	2,918	3,930	4,162
Capitalized interest	1,419	4,555	8,312	9,743	5,002
Interest component of rental expense	1,524	1,608	1,467	1,415	1,403
Total fixed charges	<u>96,315</u>	<u>92,968</u>	<u>108,271</u>	<u>111,478</u>	<u>106,576</u>
Preferred Stock dividends	6,708	6,708	9,804	13,477	17,063
Total fixed charges and Preferred Stock dividends	<u>\$ 103,023</u>	<u>\$ 99,676</u>	<u>\$ 118,075</u>	<u>\$ 124,955</u>	<u>\$ 123,639</u>
Ratio of earnings to fixed charges	<u>1.74</u>	<u>1.45</u>	<u>1.28</u>	<u>1.28</u>	<u>1.23</u>
Ratio of earnings to combined fixed charges and Preferred Stock dividends	<u>1.63</u>	<u>1.35</u>	<u>1.17</u>	<u>1.15</u>	<u>1.06</u>

HIGHWOODS REALTY LIMITED PARTNERSHIP

RATIO OF EARNINGS TO FIXED CHARGES AND

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND

PREFERRED UNIT DISTRIBUTIONS

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Earnings:					
Income from continuing operations before equity in earnings of unconsolidated affiliates	\$ 68,157	\$ 42,010	\$ 32,670	\$ 37,065	\$ 21,747
Fixed charges	96,315	92,968	108,271	111,397	106,540
Capitalized interest	(1,419)	(4,555)	(8,312)	(9,743)	(5,002)
Distributions of earnings from unconsolidated affiliates	4,377	4,103	5,978	4,271	7,335
Total earnings	<u>\$ 167,430</u>	<u>\$ 134,526</u>	<u>\$ 138,607</u>	<u>\$ 142,990</u>	<u>\$ 130,620</u>
Fixed charges and Preferred Unit distributions:					
Contractual interest expense	\$ 87,726	\$ 81,982	\$ 92,858	\$ 93,894	\$ 93,598
Amortization of deferred financing costs	3,385	2,760	2,716	2,415	2,375
Financing obligations interest expense	2,261	2,063	2,918	3,930	4,162
Capitalized interest	1,419	4,555	8,312	9,743	5,002
Interest component of rental expense	1,524	1,608	1,467	1,415	1,403
Total fixed charges	<u>96,315</u>	<u>92,968</u>	<u>108,271</u>	<u>111,397</u>	<u>106,540</u>
Preferred Unit distributions	6,708	6,708	9,804	13,477	17,063
Total fixed charges and Preferred Unit distributions	<u>\$ 103,023</u>	<u>\$ 99,676</u>	<u>\$ 118,075</u>	<u>\$ 124,874</u>	<u>\$ 123,603</u>
Ratio of earnings to fixed charges	<u>1.74</u>	<u>1.45</u>	<u>1.28</u>	<u>1.28</u>	<u>1.23</u>
Ratio of earnings to combined fixed charges and Preferred Unit distributions	<u>1.63</u>	<u>1.35</u>	<u>1.17</u>	<u>1.15</u>	<u>1.06</u>

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-12117, 333-29759, 333-55901, 333-160521, and 333-168356 on Form S-8, and Registration Statements No. 333-149733, 333-149736, 333-158408 on Form S-3 of our reports dated February 9, 2011, relating to the consolidated financial statements and financial statement schedules of Highwoods Properties, Inc. and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

February 9, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-149733-01 on Form S-3 of our report dated February 9, 2011, relating to the consolidated financial statements and financial statement schedules of Highwoods Realty Limited Partnership and subsidiaries (the “Operating Partnership”) appearing in this Annual Report on Form 10-K of the Operating Partnership for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

February 9, 2011

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highwoods Properties, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 the 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: February 9, 2011

/s/ EDWARD J. FRITSCH

Edward J. Fritsch
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Terry L. Stevens, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highwoods Properties, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 the 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: February 9, 2011

/s/ TERRY L. STEVENS

Terry L. Stevens

Senior Vice President and Chief Financial
Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 the 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: February 9, 2011

/s/ EDWARD J. FRITSCH

Edward J. Fritsch
President and Chief Executive Officer of the General
Partner

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Terry L. Stevens, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 the 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: February 9, 2011

/s/ TERRY L. STEVENS

Terry L. Stevens

Senior Vice President and Chief Financial Officer of the General
Partner

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Annual Report of Highwoods Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Fritsch, 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, as amended; 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/ EDWARD J. FRITSCH

Edward J. Fritsch
President and Chief Executive Officer
February 9, 2011

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Annual Report of Highwoods Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry L. Stevens, Senior 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, as amended; 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/ TERRY L. STEVENS

Terry L. Stevens
Senior Vice President and Chief Financial Officer
February 9, 2011

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Annual Report of Highwoods Realty Limited Partnership (the “Operating Partnership”) on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward J. Fritsch, President and Chief Executive Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, 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, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ EDWARD J. FRITSCH

Edward J. Fritsch
President and Chief Executive Officer of the General
Partner
February 9, 2011

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Annual Report of Highwoods Realty Limited Partnership (the “Operating Partnership”) on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Terry L. Stevens, Senior Vice President and Chief Financial Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, 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, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ TERRY L. STEVENS

Terry L. Stevens

Senior Vice President and Chief Financial Officer of the General
Partner

February 9, 2011