

HIGHWOODS PROPERTIES INC

FORM 8-K

(Unscheduled Material Events)

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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 1, 1997

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State of Incorporation)

1-13100
(Commission File Number)

56-1871668
(IRS Employer Identification No.)

3100 SMOKETREE COURT, SUITE 600
RALEIGH, NORTH CAROLINA
(Address of principal executive offices)

27604
(Zip Code)

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

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On October 1 and October 7, 1997, Highwoods Properties, Inc. (the "Company") closed substantially all of its previously announced business combination with Associated Capital Properties, Inc. ("ACP") and related portfolio acquisition (the "ACP Transaction"). The ACP Transaction includes the acquisition of a portfolio of 84 office properties encompassing 6.5 million rentable square feet (the "ACP Properties") and approximately 50 acres of land for development in six markets in Florida. To date, the Company has completed the acquisition of all but one of the ACP Properties, Signature Plaza in Orlando, Florida. The Company expects to complete the acquisition of Signature Plaza by October 17, 1997. (All information presented about the ACP Transaction assumes the acquisition of Signature Plaza.)

The ACP Properties were 90% leased as of June 30, 1997. The ACP Properties include 82 office properties (78 of which are suburban) in Florida's four major markets, Orlando, Tampa, Jacksonville and South Florida, one 245,000-square foot suburban office property in Tallahassee and one 51,831-square foot office property in Ft. Myers. The ACP Properties include seven properties that ACP had under contract to purchase.

Under the terms of the agreements relating to the ACP Transaction, the Company merged with Associated Capital Properties, Inc. and acquired the ownership interests in the entities that own the ACP Properties for an aggregate purchase price of \$617 million. The cost of the ACP Transaction consists of the issuance of 2,955,110 Common Units (valued at \$32.50 per Common Unit), the assumption of \$481 million of mortgage debt (\$391 million of which has been paid off by the Company), the issuance of 117,265 shares of Common Stock (valued at \$32.50 per share), a capital expenditure reserve of \$11 million and a cash payment of \$25 million. All Common Units and Common Stock issued in the transaction are subject to restrictions on transfer or redemption which will expire over a three-year period. All lockup restrictions on the transfer of such Common Units or Common Stock issued to ACP and its affiliates will expire in the event of a change of control of the Company or a material adverse change in the financial condition of the Company. Such restrictions will also expire if James R. Heistand, former president of ACP, is not appointed or elected as a director of the Company prior to October 7, 1998. Also in connection with the ACP Transaction, the Company issued to certain affiliates of ACP warrants to purchase 1,479,290 shares of the Common Stock at \$32.50 per share exercisable after October 1, 2002.

Mr. Heistand has become a regional vice president of the Company responsible for its Florida operations and an advisory member of the Company's investment committee. Mr. Heistand is expected to join the Company's Board of Directors and become a voting member of the Company's investment committee within the next year. Mr. Heistand has over 19 years of commercial real estate experience in Florida. Over 100 employees of ACP have joined the Company, including the two other members of ACP's senior management team, Allen C. de Olazarra and Dale Johannes.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

Following is a list of the financial statements, pro forma financial information and exhibits filed as a part of this report

(a) Financial Statements of Businesses Acquired

Associated Capital Properties Portfolio

Report of Independent Auditors

Combined Statements of Revenue and Certain Operating Expenses

Notes to Combined Statements of Revenues and Certain Operating Expenses

1997 Pending Acquisitions

Report of Independent Auditors

Combined Statements of Revenue and Certain Operating Expenses

Notes to Combined Statements of Revenues and Certain Operating Expenses

(b) Pro Forma Financial Information

Unaudited Pro Forma Condensed Combining Financial Statements

Pro Forma Condensed Combining Balance Sheet (unaudited) as of June 30, 1997

Pro Forma Condensed Statement of Operations (unaudited) for the six months ended June 30, 1997

Pro Forma Condensed Statements of Operations (unaudited) for the year ended December 31, 1996

Notes to Pro Forma Condensed Combining Financial Statements

(c) The following exhibits are filed as part of this report:

2.1 Master Agreement of Merger and Acquisition by and among Highwoods Properties, Inc., Highwoods/Forsyth Limited Partnership, Associated Capital Properties, Inc. and its shareholders dated August 27, 1997 (Incorporated by reference to the Company's current report on Form 8-K dated August 27, 1997).

23.1 Consent of Coopers & Lybrand LLP

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HIGHWOODS PROPERTIES, INC.

/S/

CARMAN J. LIUZZO

Carman J. Liuzzo

*Vice President and Chief Financial
Officer*

Date: October 16, 1997

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HIGHWOODS PROPERTIES, INC.

PRO FORMA CONDENSED COMBINING BALANCE SHEET (UNAUDITED)

JUNE 30, 1997
(IN THOUSANDS)

	HISTORICAL (A)	AUGUST 1997 OFFERING (B)	ACP, INC. (C)	COMMON STOCK OFFERING (D)	PREFERRED STOCK OFFERING (E)
ASSETS					
Real estate assets, net.....	\$1,664,751	\$ --	\$ 617,000	\$ --	\$ --
Cash and cash equivalents.....	18,625	57,000	(25,477)	58,380	--
Accounts and notes receivables.....	14,078	--	--	--	--
Accrued straight line rent receivable...	8,682	--	--	--	--
Other assets.....	31,402	--	--	--	--
	\$1,737,538	\$57,000	\$ 591,523	\$ 58,380	\$ --
LIABILITIES AND STOCKHOLDERS' EQUITY					
Mortgages and notes payable.....	\$ 647,473	\$ --	\$ 481,171	\$ (223,862)	\$ (166,916)
Accounts payable, accrued expenses and other.....	28,211	--	10,500	--	--
Total liabilities.....	675,684	--	491,671	(223,862)	(166,916)
Minority interest.....	171,759	--	96,041	--	--
Preferred stock:					
Series A.....	125,000	--	--	--	--
Series B.....	--	--	--	--	172,500
Stockholders' equity:					
Common stock.....	359	18	1	85	--
Additional paid in capital.....	783,442	56,982	2,935	282,157	(5,584)
Distributions in excess of net earnings.....	(18,706)	--	--	--	--
Total Stockholders' equity.....	890,095	57,000	3,811	282,242	166,916
	\$1,737,538	\$57,000	\$ 591,523	\$ 58,380	\$ --

PRO FORMA

ASSETS	
Real estate assets, net.....	\$2,281,751
Cash and cash equivalents.....	108,528
Accounts and notes receivables.....	14,078
Accrued straight line rent receivable...	8,682
Other assets.....	31,402
	\$2,444,441
LIABILITIES AND STOCKHOLDERS' EQUITY	
Mortgages and notes payable.....	\$ 737,866
Accounts payable, accrued expenses and other.....	38,711
Total liabilities.....	776,577
Minority interest.....	267,800
Preferred stock:	
Series A.....	125,000
Series B.....	172,500
Stockholders' equity:	
Common stock.....	463
Additional paid in capital.....	1,120,807
Distributions in excess of net earnings.....	(18,706)
Total Stockholders' equity.....	1,400,064
	\$2,444,441

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA CONDENSED COMBINING BALANCE SHEET (UNAUDITED)

JUNE 30, 1997

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining balance sheet is presented as if the following transactions had been consummated on June 30, 1997: (a) the issuance of 1.8 million shares of Common Stock (the "August 1997 Offering"), (b) the completion of the proposed purchase of the stock of and merger with Associated Capital Properties, Inc. (together with its affiliates, "ACP") and the acquisition of an affiliated property portfolio (collectively, the "ACP Portfolio") (the "Merger"), (c) the completion of the acquisition of the seven properties that ACP has under contract to purchase (the "1997 Pending Acquisitions"), (d) the issuance of 8.5 million shares of Common Stock at an assumed price of \$35 per share (the "Common Stock Offering") and (e) the issuance of 6.9 million shares of 8% Series B Cumulative Redeemable Preferred Shares at an assumed price of \$25 per share (the "Preferred Stock Offering").

The acquisitions have been or will be accounted for using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed have been or will be recorded at their estimated fair values which may be subject to further refinement, including appraisals and other analyses. Management does not expect that the final allocation of the purchase prices for the above acquisitions will differ materially from the preliminary allocations.

This unaudited pro forma condensed combining balance sheet should be read in conjunction with the pro forma condensed combining statement of operations of the Company for the six months ended June 30, 1997 and for the year ended December 31, 1996, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1996, the unaudited financial statements and related notes of the Company included in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997, and the financial statements and related notes of Associated Capital Properties Portfolio and 1997 Pending Acquisitions included herein.

The pro forma condensed combining balance sheet is unaudited and not necessarily indicative of what the actual financial position would have been had the aforementioned transactions actually occurred on June 30, 1997, nor does it purport to represent the future financial position of the Company.

2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(a.) Represents the Company's historical balance sheet contained in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

(b.) Reflects the net proceeds of the Company's August 1997 Offering of 1.8 million shares of Common Stock.

(c.) Reflects the allocation of the \$ 617 million purchase price to the fair value of the net assets acquired in the Merger and the 1997 Pending Acquisitions (collectively, the "ACP Transaction"). The purchase price will consist of the issuance of 3,036,702 Common Units (valued at \$32.50 per Common Unit), the assumption of \$481 million of mortgage debt, the issuance of 90,342 shares of Common Stock (valued at \$32.50 per share), a cash payment of \$24 million and \$11 million capital expenditure reserve.

(d.) Reflects the issuance of 8.5 million shares of Common Stock in the Offering at an assumed offering price of \$35 per share and the use of the net proceeds to pay off debt to be assumed in the ACP Transaction. In determining net proceeds from the Common Stock Offering, underwriting discounts and other offering costs have been assumed to equal \$15.3 million.

(e.) Reflects the issuance of 6.9 million shares of 8% Series B Cumulative Redeemable Preferred Shares at an assumed offering price of \$25 per share and the use of the net proceeds to find the \$24 million cash portion of the purchase price of and to repay debt assumed in the ACP Transaction. In determining net proceeds from the Preferred Stock Offering, underwriting discounts and other offering costs have been assumed to equal \$5.6 million.

HIGHWOODS PROPERTIES, INC.

PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL (A)	CENTURY CENTER AND ANDERSON TRANSACTIONS (B)	OTHER OFFERINGS (C)	ACP PORTFOLIO (D)	1997 PENDING ACQUISITIONS (E)	PRO FORMA ADJUSTMENTS
REVENUE:						
Rental property.....	\$115,478	\$ 1,047	\$ --	\$34,691	\$7,305	\$ 1,721(f)
Other Income.....	4,081	--	--	998	71	--
	119,559	1,047	--	35,689	7,376	1,721
OPERATING EXPENSES:						
Rental property.....	31,588	317	--	16,449	3,216	--
Depreciation and amortization.....	19,900	715	--	--	--	6,013(g)
INTEREST EXPENSE:						
Contractual.....	22,516	1,358	(3,711)	--	--	16,438(h)
Amortization of deferred financing costs.....	1,122	--	--	--	--	--
	23,638	1,358	(3,711)	--	--	16,438
General and administrative.....	4,284	--	--	--	--	--
Income before minority interest.....	40,149	(1,343)	3,711	19,240	4,160	(20,730)
Minority interest.....	(6,424)	--	--	--	--	(1,773)(i)
Income before extraordinary item and dividends on preferred shares.....	33,725	(1,343)	3,711	19,240	4,160	(22,503)
Dividends on 8 5/8% Series A Redeemable Preferred Shares.....	(4,102)	--	(1,289)	--	--	--
Dividends on 8% Series B Redeemable Preferred Shares.....	--	--	--	--	--	--
Net income available for common shareholders before extraordinary item.....	\$ 29,623	\$ (1,343)	\$ 2,422	\$19,240	\$4,160	\$ (22,503)
Net income per common share.....	\$ 0.84					
Weighted average shares.....	35,375					
	PREFERRED STOCK OFFERING	COMMON STOCK OFFERING	PRO FORMA			
REVENUE:						
Rental property.....	\$ --	\$ --	\$ 160,242			
Other Income.....	--	--	5,150			
	--	--	165,392			
OPERATING EXPENSES:						
Rental property.....	--	--	51,570			
Depreciation and amortization.....	--	--	26,628			
INTEREST EXPENSE:						
Contractual.....	(5,425)(j)	(7,276)(l)	23,900			
Amortization of deferred financing costs.....	--	--	1,122			
	(5,425)	(7,276)	25,022			
General and administrative.....	--	--	4,284			
Income before minority interest.....	5,425	7,276	57,888			
Minority interest.....	(863)(i)	(1,302)(i)	(10,362)			
Income before extraordinary item and dividends on preferred shares.....	4,562	5,974	47,526			
Dividends on 8 5/8% Series A Redeemable Preferred Shares.....	--	--	(5,391)			
Dividends on 8% Series B Redeemable Preferred Shares.....	(6,900)(k)	--	(6,900)			
Net income available for common						

shareholders before extraordinary item.....	\$(2,338)	\$ 5,974	\$ 35,235
Net income per common share.....			\$ 0.76
Weighted average shares.....			46,537

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 1997

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the following transactions had been consummated on January 1, 1996: (a) the completion of the merger with Anderson Properties, Inc. ("Anderson Properties") and the purchase of a portfolio of properties from affiliates of Anderson Properties (the "Anderson Transaction") and the purchase of Century Center Office Park and an affiliated property portfolio (the "Century Center Transaction"), (b) the completion of the offering of \$125,000,000 of 8 5/8% Series A Cumulative Redeemable Preferred Shares and of \$100,000,000 of Exercisable Put Option Securities (collectively the "Other Offerings"), (c) the completion of the Merger (d) the completion of the 1997 Pending Acquisitions, (e) the issuance of 8.5 million shares of common stock at an assumed price of \$35 per share (the "Common Stock Offering") and (f) the issuance of 6.9 million shares of 8% Series B Cumulative Redeemable Preferred Shares at an assumed price of \$25 per share (the "Preferred Stock Offering").

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed balance sheet of the Company as of June 30, 1997, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1996, the unaudited financial statements and related notes of the Company included in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997, and the financial statements and related notes of Associated Capital Properties Portfolio and 1997 Pending Acquisitions included herein.

The pro forma condensed combining statement of operations is unaudited and is not necessarily indicative of what the Company's actual results would have been had the aforementioned transactions actually occurred on January 1, 1996 nor does it purport to represent the future operating results of the Company.

2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS

(a.) Represents the Company's historical statement of operations contained in its Quarterly Report on Form 10-Q for the six months ended June 30, 1997.

(b.) Reflects the historical statement of operations of Century Center Office Park and an affiliated portfolio ("Century Center") and Anderson Properties for the period from January 1, 1997 through the respective dates of their acquisition, adjusted on a pro forma basis for interest expense and depreciation expense.

(c.) Reflects the estimated interest expense savings on \$127.5 million of the Company's \$280 million unsecured revolving line of credit (the "Revolving Loan") and \$63.1 million of other loans repaid with the proceeds of the Other Offerings and the dividends incurred on the Company's 8 5/8% Series A Cumulative Redeemable Preferred Stock from January 1, 1997 through the date of the offering of the 8 5/8% Series A Cumulative Redeemable Preferred Stock.

(d.) Represents the historical revenues and operating expenses of ACP and the ACP Portfolio for the six months ended June 30, 1997 and the historical operations of properties acquired by ACP during 1997 from January 1, 1997 to the respective dates of their acquisition.

(e.) Reflects the historical revenues and operating expenses of the 1997 Pending Acquisitions for the six months ended June 30, 1997.

(f.) Reflects incremental rental revenue for significant leases signed during 1997 related to buildings acquired that were owner-occupied prior to June 30, 1997.

(g.) Represents the net adjustment to depreciation expense based upon an assumed allocation of the purchase price to land, buildings and development in process. Building depreciation is computed on a straight-line basis using an estimated life of 40 years.

(h.) Represents the net adjustment to interest expense to reflect interest costs on \$391 million in borrowings under the Revolving Loan at an assumed rate of 6.5% (the capped interest rate based on a 30-day LIBOR rate of 5.5% plus 100 basis points) and \$90 million in assumed debt at a weighted average interest rate of 8.27%.

(i.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 17.9%.

(j.) Represents the estimated interest expense savings on \$166.9 million of the Revolving Loan repaid with the proceeds of the Preferred Stock Offering.

(k.) Represents the 8% dividend on the shares issued in the Preferred Stock Offering.

(1.) Represents the estimated interest expense savings on \$223.9 million of the Revolving Loan repaid with the proceeds of the Common Stock Offering.

HIGHWOODS PROPERTIES, INC

PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 1996 (IN THOUSANDS, EXCEPT PER SHARE)

	HISTORICAL (A)	CROCKER TRANSACTION (B)	EAKIN & SMITH (C)	1996 OFFERINGS (D)	CENTURY CENTER AND ANDERSON TRANSACTIONS	OTHER OFFERINGS (H)	ACP PORTFOLIO HISTORICAL (I)
REVENUE:							
Rental property..	\$130,848	\$47,892	\$ 3,000	\$ --	\$ 27,128(e)	\$ --	\$ 59,513
Other Income...	7,078	(1,424)	512	--	--	--	1,615
	137,926	46,468	3,512	--	27,128	--	61,128
OPERATING EXPENSES:							
Rental property..	35,313	15,709	957	--	18,218(e)	--	32,195
Depreciation and amortization...	22,095	9,048	453	--	5,722(f)	--	--
INTEREST EXPENSE							
Contractual...	24,699	13,048	1,207	(4,504)	10,861(g)	(7,421)	--
Amortization of deferred financing costs...	1,911	374	--	1,059	--	--	--
	26,610	13,422	1,207	(3,445)	10,861	(7,421)	--
General and administrative..	5,666	271	200	--	--	--	--
Income before minority interest...	48,242	8,018	695	3,445	(7,673)	7,421	28,933
Minority interest..	(6,782)	--	--	--	--	--	--
Income before extraordinary item and dividends on preferred shares...	41,460	8,018	695	3,445	(7,673)	7,421	28,933
Dividends on 8 5/8% Series A Redeemable Preferred Shares...	--	--	--	--	--	(10,781)	--
Dividends on 8% Series B Redeemable Preferred Shares....	--	--	--	--	--	--	--
Net Income available for common shareholders before extraordinary item.....	\$ 41,460	\$ 8,018	\$ 695	\$ 3,445	\$ (7,673)	\$ (3,360)	\$ 28,933
Net income per common share....	\$ 1.59						
Weighted average shares...	26,111						
	1997 PENDING ACQUISITIONS (J)	PRO FORMA ADJUSTMENTS	PREFERRED STOCK OFFERING	COMMON STOCK OFFERING	PRO FORMA		
REVENUE:							
Rental property..	\$ 13,689	\$ 3,605(k)	\$ --	\$ --	\$285,675		
Other Income...	300	--	--	--	8,081		
	13,989	3,605	--	--	293,756		
OPERATING EXPENSES:							
Rental property..	6,388	--	--	--	108,780		

Depreciation and amortization	--	12,025(l)	--	--	49,343
INTEREST EXPENSE					
Contractual	--	32,877(m)	(10,850)(o)	(14,551)(q)	45,366
Amortization of deferred financing costs...	--	--	--	--	3,344
	--	32,877	(10,850)	(14,551)	48,710
General and administrative	--	--	--	--	6,137
Income before minority interest...	7,601	(41,297)	10,850	14,551	80,786
Minority interest...	--	(3,347)(n)	(1,727)(n)	(2,605)(n)	(14,461)
Income before extraordinary item and dividends on preferred shares...	7,601	(44,644)	9,123	11,946	66,325
Dividends on 8 5/8% Series A Redeemable Preferred Shares...	--	--	--	--	(10,781)
Dividends on 8% Series B Redeemable Preferred Shares....	--	--	(13,800)(p)	--	(13,800)
Net Income available for common shareholders before extraordinary item.....	\$ 7,601	\$(44,644)	\$ (4,677)	\$ 11,946	\$ 41,744
Net income per common share....					\$.90
Weighted average shares...					46,537

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 1996

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the following transactions had been consummated on January 1, 1996:

- (a.) the acquisition of 70 properties and the business operations of Crocker Realty Trust, Inc. and its affiliates (the "Crocker Transaction");
- (b.) the acquisition of seven properties and 18 acres of development land, a 103,000-square foot suburban office development project and the business operations of Eakin & Smith, Inc. (collectively, the "Eakin & Smith Transaction");
- (c.) the Company's 1996 offerings including: (i) \$100 million of 6 3/4% Notes due December 1, 2003 and \$110 million of 7% Notes due December 1, 2006, (ii) \$125 million of 8 5/8% Series A Cumulative Redeemable Preferred Shares, (iii) 2,250,000 shares of Common Stock at \$29.50 per share and (iv) 1,093,577 shares of Common Stock at prices of \$29.16, \$29.01, and \$28.86 for 137,198, 344,753 and 611,626 shares, respectively (collectively, the "1996 Offerings");
- (d.) the completion of the Anderson and Century Center Transactions,
- (e.) the completion of the Other Offerings;
- (f.) the completion of the Merger;
- (g.) the completion of the 1997 Pending Acquisitions; and
- (h.) the completion of the Common Stock Offering.
- (i.) the completion of the Preferred Stock Offering.

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed combining balance sheet of the Company as of June 30, 1997, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1996, the unaudited financial statements and related notes of the Company included in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997, and the financial statements and related notes of Associated Capital Properties Portfolio and 1997 Pending Acquisitions included herein.

The pro forma condensed combining statement of operations is unaudited and is not necessarily indicative of what the Company's actual results would have been had the aforementioned transactions actually occurred on January 1, 1996 nor does it purport to represent the future operating results of the Company.

2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

- (a.) Represents the Company's historical statement of operations contained in its Annual Report on Form 10-K for the year ended December 31, 1996.
- (b.) Reflects the historical operations of Crocker Realty Trust, Inc. adjusted on a pro forma basis for interest expense, depreciation expense and other items, for the period of time during 1996 prior to its acquisition by the Company.
- (c.) Reflects the historical operations of Eakin & Smith, adjusted on a pro forma basis for interest expense, depreciation expense and other items, for the period of time during 1996 prior to its acquisition by the Company.
- (d.) Reflects the pro forma effects of the 1996 Offerings.
- (e.) Reflects the historical statement of operations of Century Center and Anderson Properties for the year ended December 31, 1996.
- (f.) Reflects the estimated depreciation expense based upon an assumed allocation of the purchase price to land, buildings and development in process and building depreciation computed on a straight-line basis using an estimated life of 40 years.

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA STATEMENTS OF OPERATIONS -- CONTINUED

2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA STATEMENT OF OPERATIONS -- Continued

(g.) Reflects the estimated interest expense on the assumed mortgages and notes payable at an average interest rate of 7.15% assumed in the Century Center Transaction and 8.78% for those assumed in the Anderson Transaction and incremental borrowings under the Revolving Loan at an average interest rate of 7%.

(h.) Reflects the estimated interest expense savings on \$127.5 million of the Revolving Loan and \$63.1 million of other loans repaid with the proceeds of the Other Offerings and the dividends incurred on the Company's 8 5/8% Series A Cumulative Redeemable Preferred Stock.

(i.) Represents the historical revenues and operating expenses of the ACP Portfolio, for the year ended December 31, 1996, the historical statement of operations from January 1, 1996 to the date of acquisition of the properties that were acquired by ACP in 1996 and the historical statement of operations for the 12 months ended December 31, 1996 of the properties that were acquired by ACP in 1997.

(j.) Reflects the historical revenues and operating expenses of 1997 Pending Acquisitions for the year ended December 1996.

(k.) Reflects incremental rental revenue for significant leases signed during 1997 related to buildings acquired that were owner-occupied prior to December 31, 1996.

(l.) Represents the net adjustment of depreciation expense based upon an assumed allocation of the purchase price to land, buildings and development in process. Building depreciation is computed on a straight-line basis using an estimated life of 40 years.

(m.) Represents the net adjustment to interest expense to reflect interest costs on \$391 million in borrowings under the Revolving Loan at an assumed rate of 6.5% capped (the effective interest rate based on a 30-day LIBOR rate of 5.5% plus 100 basis points) and \$90 million in assumed debt at a weighted average interest rate of 8.25%.

(n.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 17.9%.

(o.) Represents the estimated interest expense savings on \$166.9 million of the Revolving Loan repaid with the proceeds of the Preferred Stock Offering.

(p.) Represents the 8% dividend on the shares issued in the Preferred Stock Offering.

(q.) Represents the estimated interest expense savings on \$223.9 million of the Revolving Loan repaid with the proceeds of the Common Stock Offering.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS HIGHWOODS PROPERTIES, INC.

We have audited the accompanying combined statement of revenue and certain operating expenses of the Associated Capital Properties Portfolio (as described in Note 1) for the year ended December 31, 1996. This combined statement of revenue and certain operating expenses is the responsibility of the management of the Associated Capital Properties Portfolio. Our responsibility is to express an opinion on the combined statement of revenue and certain operating expenses based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

The accompanying combined statement of revenue and certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1 for real estate operations acquired by Highwoods Properties, Inc. and is not intended to be a complete presentation of the revenue and expenses of the property and may not be comparable to those resulting from the proposed future operations of the property.

In our opinion, the combined statement of revenue and certain operating expenses presents fairly, in all material respects, the combined revenue and certain operating expenses, as defined above, of the Associated Capital Properties Portfolio for the year ended December 31, 1996 in conformity with generally accepted accounting principals.

COOPERS & LYBRAND LLP

Memphis, Tennessee
September 12, 1997

ASSOCIATED CAPITAL PROPERTIES PORTFOLIO

COMBINED STATEMENTS OF REVENUE AND CERTAIN OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1996 AND THE (UNAUDITED) SIX MONTHS ENDED JUNE 30, 1997 (NOTE 1) (IN THOUSANDS)

	1996	SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)
Revenue:		
Rental.....	\$50,026	\$30,115
Tenant reimbursements.....	9,487	4,576
Other.....	1,615	998
Total revenue.....	61,128	35,689
Certain operating expenses:		
Property operating and maintenance.....	22,831	11,238
Property management.....	2,270	1,419
Real estate taxes.....	5,660	3,116
Insurance.....	668	314
Ground rent.....	766	362
Total certain operating expenses.....	32,195	16,449
Excess of revenue over certain operating expenses.....	\$28,933	\$19,240

See accompanying notes to statements of revenue and certain operating expenses.

ASSOCIATED CAPITAL PROPERTIES PORTFOLIO

NOTES TO COMBINED STATEMENTS OF REVENUE AND CERTAIN OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1996

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The accompanying combined statements of revenue and certain operating expenses include the combined operations of certain commercial office properties (the "ACP Portfolio") located in Florida which are to be acquired from Associated Capital Properties, Inc. and its affiliates ("ACP"). The properties are to be acquired by Highwoods Properties, Inc. ("Highwoods" or the "Company") pursuant to a Master Agreement of Merger and Acquisition between Highwoods and ACP dated August 27, 1997.

The ACP Portfolio consists of 77 office properties with approximately 5.4 million rentable square feet located in the Jacksonville, Orlando, South Florida, Tampa and Ft. Myers markets.

BASIS OF PRESENTATION

Associated Capital Properties Portfolio is not a legal entity but rather a combination of the operations of certain properties to be acquired by the Company. The accompanying statements were prepared to comply with the rules and regulations of the Securities and Exchange Commission for real estate operations to be acquired by the Company. The accompanying statements were prepared on a combined basis as the properties being acquired are under common control or management and are being acquired under a single agreement of merger and acquisition.

The accompanying statements are not representative of the actual operations for the period presented as certain expenses that may not be comparable to the expenses expected to be incurred by the Company in the future operations of the ACP Portfolio have been excluded. Excluded expenses consist of interest, depreciation and amortization and general and administrative costs.

REVENUE RECOGNITION

Rental revenue is recognized on a straight-line basis over the terms of the related leases.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNAUDITED INTERIM STATEMENT

In the opinion of management, the unaudited combined financial statement for the six months ended June 30, 1997 reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the results of the respective interim period. The revenue and certain operating expenses for the interim period is not necessarily indicative of the ACP Portfolio's future revenue and certain operating expenses for a full year.

PROPERTY MANAGEMENT

Property management expenses include the direct property management costs incurred by ACP and, for periods prior to ACP management, the fees charged by third-party property managers.

ASSOCIATED CAPITAL PROPERTIES PORTFOLIO

NOTES TO COMBINED STATEMENTS OF REVENUE AND CERTAIN OPERATING EXPENSES -- CONTINUED

NOTE 2. LEASES

Office space in the ACP Portfolio is generally leased to tenants under lease terms that provide for the tenants to pay for increases in operating expenses in excess of specified amounts.

The future minimum lease payments to be received under the existing operating leases as of December 31, 1996 are as follows (in thousands):

1997.....	\$ 46,244
1998.....	37,551
1999.....	30,489
2000.....	23,925
2001.....	17,306
Thereafter.....	68,871

The above future minimum lease payments do not include specified payments for tenant reimbursements of operating expenses.

Certain properties were substantially occupied by their former owners. The accompanying combined statements of revenues and certain operating expenses does not include any imputed revenues from the former owners up through the dates of acquisition by ACP.

The following is a summary of these properties and the approximate annual rental rate under lease agreements with the former owner occupants:

PROPERTY NAME	DATE ACQUIRED	APPROXIMATE ANNUAL RENTAL
Fireman's Fund Building	October 1996	\$ 485,000
Independent Square	April 1997	2,160,000
Campus Crusade	May 1997	900,000
Gray Street	May 1997	60,000

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS HIGHWOODS PROPERTIES, INC.

We have audited the accompanying combined statement of revenue and certain operating expenses of the 1997 Pending Acquisitions (as described in Note 1) for the year ended December 31, 1996. This combined statement of revenue and certain operating expenses is the responsibility of the owners and property management of the 1997 Pending Acquisitions. Our responsibility is to express an opinion on the statement of revenue and certain operating expenses based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and certain operating expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

The accompanying combined statement of revenue and certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1, for real estate operations acquired by Highwoods Properties, Inc. and is not intended to be a complete presentation of the revenue and expenses of the properties and may not be comparable to those resulting from the proposed future operations of the properties.

In our opinion, the combined statement of revenue and certain expenses presents fairly, in all material respects, the combined revenue and certain operating expenses, as described in Note 1, of the 1997 Pending Acquisitions for the year ended December 31, 1996, in conformity with generally accepted accounting principals.

COOPERS & LYBRAND LLP

Memphis, Tennessee
September 12, 1997

1997 PENDING ACQUISITIONS

COMBINED STATEMENTS OF REVENUE AND CERTAIN OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1996 AND THE (UNAUDITED) SIX MONTHS ENDED JUNE 30, 1997 (NOTE 1) (IN THOUSANDS)

	1996	SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)
Revenue:		
Rental.....	\$11,676	\$ 6,262
Tenant reimbursements.....	1,868	977
Parking.....	145	66
Other.....	300	71
Total revenue.....	13,989	7,376
Certain operating expenses:		
Property operating and maintenance.....	3,960	1,965
Property management.....	615	333
Real estate taxes.....	1,545	784
Insurance.....	268	134
Total certain operating expenses.....	6,388	3,216
Excess of revenue over certain operating expenses.....	\$ 7,601	\$ 4,160

See accompanying notes to statement of revenue and certain operating expenses.

1997 PENDING ACQUISITIONS

NOTES TO COMBINED STATEMENTS OF REVENUE AND CERTAIN OPERATING EXPENSES -- CONTINUED

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The accompanying combined statements of revenue and certain operating expenses include the combined operations of certain commercial office properties located in Florida that are pending acquisition in 1997 (the "1997 Pending Acquisitions") by Associated Capital Properties, Inc. and its affiliates ("ACP") from third parties. The properties are to be acquired by Highwoods Properties, Inc. ("Highwoods" or the "Company") pursuant to a Master Agreement of Merger and Acquisition between Highwoods and ACP dated August 27, 1997.

The 1997 Pending Acquisitions consist of 7 office properties with approximately 1.0 million rentable square feet located in the Orlando and South Florida markets.

BASIS OF PRESENTATION

The accompanying statements were prepared to comply with the rules and regulations of the Securities and Exchange Commission for real estate operations to be acquired by the Company. The accompanying statements were prepared on a combined basis as they are to be acquired by Highwoods pursuant to a single agreement of merger and acquisition. There are no interproperty accounts to be eliminated. The accompanying statements are not representative of the actual operations for the periods presented as certain expenses that may not be comparable to the expenses expected to be incurred by the Company in the future operations of the 1997 Pending Acquisitions have been excluded.

REVENUE RECOGNITION

Rental revenue is recognized on a straight-line basis over the terms of the related leases.

PROPERTY MANAGEMENT

Property management expenses include fees charged by third parties under property management agreements.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNAUDITED INTERIM STATEMENT

In the opinion of management, the unaudited combined financial statement for the six months ended June 30, 1997 reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the results of the respective interim period. The revenue and certain operating expenses for the interim period are not necessarily indicative of the 1997 Pending Acquisitions' future revenue and certain operating expenses for a full year.

NOTE 2. LEASES

Office space in the 1997 Pending Acquisitions is generally leased to tenants under lease terms which provide for the tenants to pay for increases in operating expenses in excess of specified amounts.

The future minimum lease payments to be received under the existing operating leases as of December 31, 1996 are as follows (in thousands):

1997	\$11,055
1998	9,189
1999	6,900
2000	4,799
2001	3,527
Thereafter	13,006

The above future minimum lease payments do not include specified payments for tenant reimbursements of operating expenses.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements and related prospectuses of Highwoods Properties, Inc. on Form S-3

(File Nos. 33-93572, 33-97712, 333-08985, 333-13519, 333-24165 and 333-31183)

and Form S-8 (File Nos. 333-12117, 333-29759 and 333-29763) of our reports dated September 12, 1997, on our audits of the combined statement of revenues and certain operating expenses of the Associated Capital Properties Portfolio for the year ended December 31, 1996, and the combined statement of revenues and certain operating expenses of the 1997 Pending Acquisitions for the year ended December 31, 1996, which reports are included in this Current Report on Form 8-K. We also consent to the reference to our firm under the caption "Experts" in the prospectus that constitutes part of the registration statement on Form S-3 (File No. 333-31183).

COOPERS & LYBRAND LLP

Memphis, Tennessee
September 17, 1997

End of Filing

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