

# HIGHWOODS PROPERTIES INC

## FORM 10-K/A (Amended Annual Report)

Filed 6/18/1996 For Period Ending 12/31/1995

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

**FORM 10-K/A**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

[X ] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the fiscal year ended December 31, 1995

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the transition period from to  
*Commission file number 1-13100*

**HIGHWOODS PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction  
of incorporation or organization)

56-1871668  
(I.R.S. Employer  
Identification No.)

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

919-872-4924  
(Registrant's 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	New York Stock Exchange

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

NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. [X ]

The aggregate market value of the shares of common stock held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on March 1, 1996 was approximately \$582,229,230. As of March 1, 1996, there were 19,407,641 shares of common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE Portions of the Registrant's Proxy Statement in connection with its Annual Meeting of Shareholders to be held April 30, 1996 are incorporated by reference in Part III Items 10, 11, 12 and 13.

# HIGHWOODS PROPERTIES, INC.

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## PART I

### ITEM 1. BUSINESS

#### General

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that began operations through a predecessor in 1978. Originally founded to over-see the development, leasing and management of the 201-acre Highwoods Office Center in Raleigh, North Carolina, the Company has since evolved into one of the largest full service real estate companies in the Southeastern United States. Historically, the Company's real estate operations have been focused in the Raleigh-Durham, North Carolina market, an area also known as the Research Triangle, one of the nation's premier business centers. On June 14, 1994, the Company completed an initial public offering of 8,510,000 shares of Common Stock in connection with the reorganization of the Company's predecessor, whereby the Company succeeded to the ownership of 36 suburban office buildings, four service center properties, one warehouse facility and 94 acres of undeveloped land (the "Formation Transaction"). As of December 31, 1995, the Company owned a portfolio of 191 in-service office and industrial properties (the "Properties") and 203 acres of undeveloped land suitable for future development (the "Development Land"). The Properties consist of 87 suburban office properties and 104 industrial properties (including 68 service centers) located in Raleigh-Durham, Winston-Salem, Greensboro and Charlotte, North Carolina and Richmond, Virginia.

The Company currently conducts all of its business and owns all of its assets through Highwoods/Forsyth Limited Partnership (the "Operating Partnership") and its subsidiaries. The Company is the sole general partner and also a limited partner of the Operating Partnership and currently holds approximately 84% of the partnership interests ("Units"). The Company currently provides management services for 23 properties owned by third parties, comprising approximately 847,000 square feet, and exclusive leasing services with respect to 29 third-party-owned properties, comprising approximately 1.7 million square feet. The Company conducts its third-party fee-based services through two subsidiaries, Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies"), as well as through Forsyth-Carter Brokerage of North Carolina, L.L.C., a joint venture with Carter-Oncor International.

The Company's executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and its telephone number is (919) 872-4924. The Company also maintains divisional offices at 380 Knollwood, Suite 430, Winston-Salem, North Carolina 27103, telephone number (910) 631-9000 and 4405 Cox Road, Suite 220, Glen Allen, Virginia 23060, telephone number (804) 747-7800.

**Business Objectives and Strategy of the Company** The Company seeks to maximize the total return to its stockholders (i) through contractual increases in rental rates from existing leases, (ii) by renewing or re-leasing space with expiring leases at higher effective rental rates, (iii) by increasing occupancy levels in properties, (iv) by acquiring new properties, (v) by developing new properties, including properties on the Development Land, and (vi) by providing a complete line of real estate services to the Company's tenants and to third parties. The Company believes that its in-house development, acquisition, construction management, leasing, brokerage and management services allow it to respond to many demands of its existing and potential tenant base, and enable it to provide its tenants cost-effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of the Company's capabilities and resources, particularly its in-house leasing and third-party brokerage services, provides it with market information not generally available and gives the Company increased access to development, acquisition and management opportunities. The Company believes that the operating efficiencies achieved through its fully integrated organization also provide a competitive advantage in setting its lease rates and pricing its other services.

The Company's strategy is to focus its real estate activities in markets where it believes its extensive local knowledge gives it a competitive advantage over other real estate developers and operators with less local experience, particularly with regard to site selection, market information and clients. Through its 1995 business combinations with Forsyth Properties, Inc. and Ross-Kreckman Management Corporation, the Company was able to diversify its portfolio to include industrial properties and to expand its geographic

focus beyond the Raleigh-Durham market to include Winston-Salem/Greensboro and the Richmond, Virginia markets, while maintaining its localized approach to real estate. The Company continued to diversify its portfolio with its acquisitions in Charlotte, North Carolina. See "Recent Developments." In addition, the Company has recently entered into a letter of intent to purchase a significant portfolio in Nashville, Tennessee. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company's executive officers have an average of approximately 18 years of experience in the real estate industry almost exclusively in their local markets. The Company seeks to acquire suburban office and industrial properties at prices below replacement cost that offer attractive returns, including acquisitions of underperforming, high-quality assets in situations offering opportunities for the Company to improve such assets' operating performance. In evaluating potential acquisition opportunities, the Company will continue to rely on the extensive experience of its management and its research capabilities in considering a number of factors, including: (i) whether the property is strategically located, (ii) the construction quality and condition of the property, (iii) the occupancy and demand of properties of a similar type in the market and (iv) whether the property is able to generate returns at or above levels of expected growth and appreciation in the property's value. (See "Recent Developments" for a discussion of the Company's acquisition and development activities during 1995.) The Company also believes that its 203 acres of development land should provide it with a competitive advantage in its future development activities. The Company may from time to time acquire properties from property owners through the exchange of Units in the Operating Partnership for the property owner's equity in the acquired property. The Units received by these property owners would be exchangeable into shares of Common Stock of the Company under certain circumstances. In connection with the transactions, the Company may also assume outstanding indebtedness associated with the acquired properties. The Company believes that this acquisition method may permit the Company to acquire properties at attractive prices from property owners wishing to enter into tax-deferred transactions. Using the foregoing structure, the Company has acquired 87 properties since its inception, comprising 4.9 million rentable square feet. The acquisitions include the Forsyth, Research Commons, and Hock properties, and a portion of the properties in the Bissell portfolio and the Richmond expansion. See "Recent Developments." The Company will also selectively seek opportunities for fee-producing development, management and brokerage business with third-party owners through the Service Companies and Forsyth-Carter Brokerage. The Company is also committed to maintaining a capital structure that will allow it to grow through development and acquisition opportunities. As part of this commitment, the Company intends to operate with a ratio of debt to total market capitalization below 40%. At March 1, 1996, the ratio of debt to total market capitalization (based on a Common Stock price of \$30 per share) is approximately 21%. The Company believes that as a result of this debt level it should be able to borrow funds at attractive rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

## Recent Developments

### Merger and Acquisition Activity

The following table summarizes the mergers and acquisitions completed during the year ended December 31, 1995 (dollars in thousands):

Property	Location	Number of Properties	Rentable Square Feet	Initial Cost
Forsyth Transaction	Piedmont Triad/Charlotte	57	3,630,565	\$ 169,900
Richmond Expansion	Richmond	10	362,844	28,700
Research Commons	Research Triangle	6	539,310	60,000
Creekstone Crossing	Research Triangle	1	59,299	4,500
Bissell Portfolio	Piedmont Triad/Charlotte	56	920,283	36,900
Hock Portfolio	Research Triangle	5	274,604	21,200
Six Forks I & II	Research Triangle	2	89,470	8,800
Cotton	Research Triangle	1	40,035	2,400
Parkway Plaza	Charlotte	6	440,134	37,500
Total		144	6,356,544	\$ 369,900

A significant portion of the Company's growth during 1995 resulted from its expansion into new markets. The Company entered three new markets and established two divisional offices as a result of the Forsyth Transaction and the Richmond Expansion (both transactions defined below). Forsyth Transaction

On February 23, 1995, the Company consummated a transaction with Forsyth Properties, Inc. and its affiliates (collectively, "Forsyth"), pursuant to which the Company and Forsyth combined their respective property portfolios, management teams and business operations (the "Forsyth Transaction"). As part of the Forsyth Transaction, the Company succeeded to the ownership of an additional 20 suburban office properties, 37 industrial properties and approximately 76 acres of development land located primarily in Winston-Salem and Greensboro, North Carolina, an area known as the Piedmont Triad. The Forsyth-owned properties totaled approximately 3.6 million square feet. As consideration for the Forsyth Transaction, the Company assumed approximately \$122.8 million of indebtedness, paid approximately \$6.0 million in cash to certain non-continuing investors, and issued 904,478 Units in the Operating Partnership to certain executive officers of Forsyth and certain holders of direct or indirect interests in the Forsyth properties. In connection with the Forsyth Transaction, the Company completed a second public offering of 5,640,000 shares of Common Stock at \$20.75 per share.

#### Richmond Expansion

On July 12, 1995, the Company acquired two suburban office properties located in Innsbrook Office Center in Richmond, Virginia. The properties, encompassing 97,672 rentable square feet, were purchased for the aggregate purchase price of \$8.3 million. The purchase price was paid through the assumption of \$7.9 million of indebtedness and cash of \$0.4 million.

On September 1, 1995, the Company established a Richmond office upon the completion of its acquisition of the Ross-Kreckman Management Corporation. Furthermore, on September 20, 1995, and October 10, 1995, the Company completed the acquisition of six suburban office properties and two service center properties encompassing 265,172 square feet in the Innsbrook Office Center in Richmond, Virginia. The purchase price for the properties totaled approximately \$20.4 million and was funded through the assumption of \$5.7 million of indebtedness, the issuance of 40,319 Units and the payment of \$13.7 million in cash.

The Company has entered into a contract with the original developer of the Innsbrook Office Center to acquire 64 acres of development land in the park at a fixed price of \$10.2 million. In January, 1996, the Company acquired the first 10 acres of this land for an aggregate purchase price of \$1.8 million in cash. The Company will acquire the remaining 54 acres over a five-year period commencing with the closing date.

The consolidated transaction described above (the "Richmond Expansion") encompasses 362,844 square feet and 64 acres of development land in eight suburban office and two service center properties. The total cost, excluding the 64 acres of development land, was \$28.7 million.

#### Research Commons

On February 10, 1995, the Company acquired six suburban office buildings located within the confines of Research Triangle Park from the Research Commons Group. The buildings are situated in an office park known as Research Commons, contain approximately 538,000 rentable square feet. The Company also acquired all of the Research Commons office park, which contains approximately 60 acres of land, 10 of which is undeveloped but zoned for office and other commercial development. As consideration for the Research Commons Acquisition, the Company assumed approximately \$26.2 million of indebtedness owed to a financial institution, assumed a \$5.0 million promissory note to Beaunit, an affiliate of certain members of the Research Commons Group, and issued 1,390,179 Units in the Operating Partnership to the Research Commons Group. In the event the buildings at Research Commons meet certain operating results in the future, the Company agreed to issue to the Research Commons Group up to an additional 40,000 Units. The Company agreed to allow the current property manager of Research Commons, Practical Management Inc., to continue to manage the properties following consummation of the acquisition. The Company however, has the right to terminate such arrangement upon 180 days notice.

#### Creekstone Crossing

On May 25, 1995, the Company acquired Creekstone Crossings, a 59,000-square foot service center property adjacent to the Research Triangle Park in Raleigh-Durham, North Carolina. Creekstone Crossings is located in the Company-owned Creekstone Park development, which includes the Riverbirch building and 22 acres of development land. The aggregate purchase price of \$4.5 million was paid through the issuance of 4,640 Units and the assumption of approximately \$4.4 million of indebtedness, which was repaid at closing from a draw under the Company's credit facility. Certain directors and officers of the Company owned an interest in Creekstone Crossings. Bissell Portfolio

On July 12, 1995, the Company acquired a 914,000-square foot industrial and service center portfolio consisting of 47 buildings located in Greensboro and nine buildings located in Charlotte, North Carolina (the "Bissell Portfolio"). As part of the acquisition, the Company initially acquired six acres of development land and will acquire 20 additional acres over a five-year period. The aggregate purchase price of approximately \$38.7 million was paid through the issuance of 81,716 Units, the assumption of \$6.7 million of indebtedness, the payment of \$28.3 million in cash and a deferred payment of \$1.6 million. The \$28.3 million cash payment was financed with a \$12.3 million first mortgage loan and a \$16.0 million draw under the Company's credit facility. The deferred payment will be payable in installments as the balance of the 20 acres of development land are placed in service or five years from the closing, whichever occurs first. The Bissell Portfolio contains 167,000 square feet of warehouse space and 747,000 square feet of service center space. Hock Portfolio

On July 20, 1995, the Company acquired a 275,000-square foot, five-building, suburban office complex located in Durham, North Carolina (the "Hock Portfolio"). The aggregate purchase price of approximately \$21.6 million was paid through the issuance of 183,000 Units and the assumption of approximately \$17.0 million of indebtedness, which was repaid at closing through a draw under the Company's credit facility. As part of the transaction, the Company was granted certain development rights with respect to approximately 78 acres of development land adjacent to the Hock Portfolio. Six Forks I & II

On November 23, 1995, the Company closed on the acquisition of two suburban office properties (Six Forks I and II) encompassing 89,000 square feet. The properties are located adjacent to the Company's Six Forks Center III property. As consideration for the purchase, the Company paid \$8.8 million in cash.

### Cotton Building

On December 5, 1995, the Company closed the 40,000 square-foot Cotton Building for \$2.3 million. The purchase price was funded through the issuance of 23,466 Units and the assumption of \$1.7 million of indebtedness, which was repaid simultaneously at closing.

### Parkway Plaza

On December 19, 1995, the Company completed a \$37.5 million acquisition of Parkway Plaza located in Charlotte, North Carolina. The portfolio consists of 330,000 square feet of office space in four buildings and 110,000 square feet of industrial space in a single building and is located in the I-77 Southwest Charlotte submarket. The 110,000-square foot industrial property is 32% finished office space. The purchase price was comprised of \$32.6 million in cash and the assumption of a \$4.9 million, 9.75% mortgage with a maturity date of February 1, 1998. The buildings are situated on 40.2 acres. Of these 40.2 acres, 23.6 are on a ground lease which expires in 2082 and includes a purchase option allowing the Company to acquire the land at any time at 85% of the appraised value.

### Development Activity

The following table summarizes the three development projects placed in service during the year ended December 31, 1995 (dollars in thousands):

Property	Location	Number of Properties	Rentable Square Feet	Initial Cost
Rexwoods IV	Research Triangle	1	42,003	\$ 4,300
Willow Oak	Research Triangle	1	88,783	8,100
West Point 5	Piedmont Triad	1	25,200	1,200
Total or Average		3	155,986	\$13,600

The Company has six suburban office properties and one industrial property under development totaling 718,300 square feet of office and industrial space. The following table summarizes these development projects in process as of December 31, 1995 (dollars in thousands):

Office Properties	Location	Rentable Square Feet	Budgeted Cost	Percent Preleased	Estimated Completion Date
Hewlett-Packard	Piedmont Triad	18,000	\$ 1,000	77%	1Q96
Global Software	Research Triangle	92,700	7,500	76	1Q96
MSA	Research Triangle	57,000	5,500	100	4Q96
Healthsource	Research Triangle	180,000	15,300	100	4Q96
Shockoe Plaza	Richmond	117,000	15,100	85	4Q96
Innsbrook	Richmond	126,000	12,500	0	4Q96
Total or Weighted Average		590,700	\$56,900	71%	
Industrial Property					
Regency One	Piedmont Triad	127,600	3,500	100%	1Q96
Total or Weighted Averager		718,300	\$60,400	76%	

### Financing Activity

During the quarter ended March 31, 1995, the Company completed a 5,640,000 share public offering of Common Stock (including 640,000 shares issued pursuant to the underwriters' over allotment option, the "Second Offering"). The net proceeds of the offering totaled \$109.8 million and were used primarily to retire indebtedness assumed in connection with the Forsyth Transaction.

Also during the quarter ended March 31, 1995, the Company received the proceeds from a \$41 million, 20-year fixed rate (8.97%) mortgage loan. After 10 years the loan provides for a rate reset, with each party



having the option at that time to put or call the loan, as the case may be. The proceeds from the loan were used, together with the offering proceeds discussed above, to fund the Forsyth Transaction.

During the quarter ended September 30, 1995, the Company completed a 4,774,989 share public offering of Common Stock (including 574,989 shares issued pursuant to the underwriter's over allotment option, the "Third Offering"). The net proceeds of the offering totaled \$110.0 million and were used primarily to retire amounts outstanding under the Company's credit facility, to fund the Richmond Expansion, to fund the cost of the Company's various development projects and to provide working capital.

Also, during the quarter ended September 30, 1995, the Company received the proceeds from a \$32 million, 20-year fixed rate (8.15%) mortgage loan. After 10 years the loan provides for a rate reset and a put/call option (as described above). The proceeds from the loan were used to fund property acquisitions made during the quarter.

In connection with the acquisition of the Bissell Portfolio, the Company entered into a \$12.2 million, 15-year variable rate (1.35% over 30 days LIBOR) mortgage loan with a put/call option at the end of years five and ten.

In connection with the Company's 1995 acquisitions, the Company assumed 13 loans with an aggregate outstanding balance on the closing dates of \$72.5 million and issued 2,676,000 Units valued at \$57.3 million.

The Company has received a commitment from three commercial banks providing for a \$140.0 million unsecured credit facility. The unsecured credit facility, which is expected to close March 31, 1996 subject to completion of final documentation, will replace the current \$80.0 million secured credit facility and will have a maturity date of June 14, 1999.

**Competition**  
The Properties compete for tenants with similar properties located in the Company's markets primarily on the basis of location, rent charged, services provided and the design and condition of the improvements. The Company also competes with other REITs, financial institutions, pension funds, partnerships, individual investors and others when attempting to acquire properties.

**Employees**  
As of December 31, 1995, the Company employed 124 persons, as compared to 43 at December 31, 1994. The increase is primarily a result of the Company's expansion into the Piedmont Triad and Richmond markets.

## ITEM 2. PROPERTIES

### General

The following table sets forth certain information with respect to the Company's properties at December 31, 1995:

	Office Properties		Industrial Properties		Total	
	Number of Properties	Rentable Square Feet	Number of Properties	Rentable Square Feet	Number of Properties	Rentable Square Feet
In-Service:						
Research Triangle.....	53	3,186,643	6	515,387	59	3,702,030
Piedmont Triad.....	20	1,056,629	78	3,095,604	98	4,152,233
Charlotte.....	6	387,348	17	491,652	23	879,000
Richmond.....	8	290,750	3	191,158	11	481,908
Total.....	87	4,921,370	104	4,293,801	191	9,215,171
Under Development:						
Research Triangle.....	3	329,700	--	--	3	329,700
Piedmont Triad.....	1	18,000	1	127,600	2	145,600
Charlotte.....	--	--	--	--	--	--
Richmond.....	2	243,000	--	--	2	243,000
Total.....	6	590,700	1	127,600	7	718,300
Total:						
Research Triangle.....	56	3,516,343	6	515,387	62	4,031,730
Piedmont Triad.....	21	1,074,629	79	3,223,204	100	4,297,833
Charlotte.....	6	387,348	17	491,652	23	879,000
Richmond.....	10	533,750	3	191,158	13	724,908
Total.....	93	5,512,070	105	4,421,401	198	9,933,471

  

	Occupancy Rate of In-Service Properties		
	Office Properties	Industrial Properties	Weighted Average
Research Triangle.....	95%	89%	94%
Piedmont Triad.....	95	92	93
Charlotte.....	93	87	90
Richmond.....	98	91	95
Weighted average.....	95%	91%	93%

## Tenants

The Properties are leased to approximately 950 tenants, which engage in a wide variety of businesses including computers, healthcare, telecommunications, finance, insurance and electronics. The following table sets forth information concerning the 20 largest tenants of the Properties as of December 31, 1995:

Tenant	Number of Leases	Annualized Rental Revenue (1)	Percent of Total Annualized Rental Revenue
1. Federal Government			
Environmental Protection Agency.....	4	\$ 4,482,619	5.1%
U.S. Army and Marine Corps.....	2	243,473	0.2
National Institute of Health Sciences.....	1	165,394	0.2
Other.....	2	77,427	0.1
Total.....	9	\$ 4,968,913	5.6%
2. IBM Corporation.....	3	3,549,603	4.0
3. First Citizens Bank & Trust.....	7	2,766,733	3.1
4. Duke University.....	5	1,378,797	1.5
5. Sears, Roebuck & Company.....	4	1,364,841	1.5
6. Volvo.....	3	1,342,728	1.5
7. Clintrials of North Carolina.....	4	1,294,525	1.5
8. Virginia State Government.....	2	1,194,000	1.3
9. Glaxo Wellcome.....	3	1,193,100	1.3
10. Kaiser Foundation Health Plan.....	3	1,082,798	1.2
11. Martin Marietta.....	5	1,077,163	1.2
12. Southern National Bank.....	2	1,071,889	1.2
13. EDS.....	2	1,071,674	1.2
14. CompuChem Corporation (2).....	1	1,023,738	1.2
15. Maupin Taylor Ellis & Adams.....	1	948,185	1.1
16. AT&T.....	5	944,742	1.1
17. Qualex.....	3	867,038	1.0
18. Broadband Technologies.....	1	849,968	1.0
19. Ericsson, Inc.....	3	848,673	1.0
20. Norwest Mortgage.....	1	831,563	0.9
Total.....	67	\$ 29,670,671	33.4%

(1) Calculated by multiplying December 1995 rental revenue (base rent plus operating pass throughs) times 12.

(2) CompuChem Corporation lease expires May 31, 1996.

The following tables set forth certain information about the Company's leasing activities for the year ended December 31, 1995 and for the period from June 14, 1994 to December 31, 1994.

	1995		1994	
	Office	Industrial	Office	Industrial
Net Effective Rents Related to Re-Leased Space:				
Number of lease transactions (signed leases).....	145	97	52	1
Rentable square footage leased.....	655,546	586,748	111,379	25,600
Average per rentable square foot over the lease term:				
Base rent.....	\$ 15.39	\$ 5.54	\$ 15.94	\$ 6.77
Tenant improvements.....	(0.29)	(0.06)	(0.96)	(0.14)
Leasing commissions.....	(0.31)	(0.12)	(0.39)	(0.06)
Rent concessions.....	(0.01)	--	(0.14)	--
Effective rent.....	\$ 14.78	\$ 5.36	\$ 14.45	\$ 6.57
Expense stop.....	(4.36)	(0.32)	(4.28)	--
Equivalent effective net rent.....	\$ 10.42	\$ 5.04	\$ 10.17	\$ 6.57
Average term in years.....	4	3	4	5
Capital Expenditures Related to Re-leased Space:				
Tenant Improvements:				
Total dollars committed under signed leases.....	\$1,604,591	\$ 115,097	\$536,946	\$ 17,920
Rentable square feet.....	655,546	586,748	111,379	25,600
Per rentable square foot.....	\$ 2.45	\$ 0.20	\$ 4.82	\$ 0.70
Leasing Commissions:				
Total dollars committed under signed leases.....	\$ 770,614	\$ 169,929	\$189,167	\$ 7,680
Rentable square feet.....	655,546	586,748	111,379	25,600
Per rentable square foot.....	\$ 1.18	\$ 0.29	\$ 1.70	\$ 0.30
Total:				
Total dollars committed under signed leases.....	\$2,375,205	\$ 285,026	\$726,113	\$ 25,600
Rentable square feet.....	655,546	586,748	111,379	25,600
Per rentable square foot.....	\$ 3.62	\$ 0.49	\$ 6.52	\$ 1.00
Re-leased Space Activity:				
Number of leases commenced during period.....	141	68	33	--
Rentable square feet.....	377,340	397,052	63,268	--
Average final rate with expense pass throughs.....	\$ 14.63	\$ 5.41	\$ 15.03	--
Average first year cash rental rate.....	\$ 15.12	\$ 6.02	\$ 15.22	--
Percentage increase.....	3.35%	11.28%	1.3%	--

The following tables set forth scheduled lease expirations for executed leases as of December 31, 1995, assuming no tenant exercises renewal options. Office Properties:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
1996	164	539,214	11.3%	\$ 7,379,537	\$ 13.69	10.7%
1997	136	778,416	16.4	10,980,414	14.11	15.9
1998	116	798,789	16.8	11,554,107	14.46	16.7
1999	71	458,142	9.6	6,679,161	14.58	9.6
2000	98	686,510	14.4	9,882,161	14.39	14.3
2001	30	764,025	16.0	11,103,977	14.53	16.1
2002	16	253,829	5.3	4,189,429	16.50	6.0
2003	10	350,877	7.4	5,589,183	15.93	8.1
2004	6	71,182	1.5	972,833	13.67	1.4
2005	5	61,927	1.3	821,394	13.26	1.2
Thereafter	--	--	--	--	--	--
Total or average	652	4,762,911	100.0%	\$69,152,196	\$ 14.52	100.0%

Industrial Properties:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
1996	202	1,673,969	44.4%	\$ 7,245,030	\$ 4.33	36.6%
1997	81	533,990	14.2	2,732,089	5.12	13.8
1998	81	497,015	13.2	3,775,415	7.60	19.1
1999	31	282,453	7.5	1,950,285	6.90	9.8
2000	33	441,497	11.7	2,540,394	5.75	12.8
2001	6	46,809	1.2	416,299	8.89	2.1
2002	3	259,710	6.9	802,403	3.09	4.1
2003	2	5,875	0.1	54,071	9.20	0.3
2004	1	4,399	0.1	46,981	10.68	0.2
2005	5	27,082	0.7	242,289	8.95	1.2
Thereafter	--	--	--	--	--	--
Total or average	445	3,772,799	100.0%	\$19,805,256	\$ 5.25	100.0%

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

# Table of Properties

The following table and the notes thereto set forth information regarding the Properties:

Property	Building Type (1)	Year Built Research Triangle	Rentable Square Feet Properties	Percent Occupied at December 31, 1995 (2)	Percent Office Finish	Ceiling/ Clear Height (Feet)
Highwoods Office Center						
Amica	O	1983	20,708	100%	100%	8
Arrowood	O	1979	58,743	100	100	8
Aspen	O	1980	36,666	95	100	8
Birchwood	O	1983	12,748	100	100	8
Cedar East	O	1981	39,904	98	100	8
Cedar West	O	1981	39,903	81	100	8
Cottonwood	O	1983	40,150	100	100	8
Cypress	O	1980	39,004	100	100	8
Dogwood	O	1983	40,613	100	100	8
Hawthorn	O	1987	63,797	100	100	9-12
Highwoods Tower	O	1991	185,222	99	100	9
Holly	O	1984	20,186	100	100	8
Ironwood	O	1978	35,695	92	100	8
Kaiser	O	1988	56,915	100	100	9
Laurel	O	1982	39,382	100	100	9
Leatherwood	O	1979	36,581	99	100	8
Smoketree Tower	O	1984	151,703	72	100	9
Rexwoods Office Center						
2500 Blue Ridge	O	1982	61,864	100	100	8
Blue Ridge II	O	1988	20,673	100	100	8
Rexwoods Center	O	1990	41,686	100	100	9
Rexwoods II	O	1993	20,845	100	100	9
Rexwoods III	O	1992	42,484	100	100	9
Rexwoods IV	O	1995	42,003	77	100	9
Triangle Business Center						
Bldg. 2A	S	1984	102,400	98	90	18
Bldg. 2B	S	1984	32,000	100	50	18
Bldg. 3	S	1988	135,360	84	80	18
Bldg. 7	S	1986	126,728	78	95	12
Progress Center						
Cape Fear	O	1979	40,058	43	100	8
Catawba	O	1980	37,456	100	100	8
CompuChem	O	1980	105,540	100	100	8
North Park						
4800 North Park	O	1985	168,016	100	100	9
4900 North Park	O	1984	32,002	94	100	9
5000 North Park	O	1980	75,395	81	100	9-10
Creekstone Park						
Creekstone Crossing	S	1990	59,299	92	96	12
Riverbirch	O	1987	59,971	100	100	8
Willow Oak	O	1995	88,783	93	100	9
Research Commons (3)						
EPA Administration	O	1966	46,718	100	100	9
EPA Annex	O	1966	145,875	100	50	9
4501 Bldg.	O	1985	56,566	100	100	9
4401 Bldg.	O	1987	115,526	84	93	9
4301 Bldg.	O	1989	90,894	100	27	9
4201 Bldg.	O	1991	83,731	100	100	9
Hock Portfolio						
Fairfield I	O	1987	50,540	92	100	9
Fairfield II	O	1989	61,064	90	100	9
Qualex	O	1985	67,000	100	100	9
4101 Roxboro	O	1984	56,000	100	100	9

## Tenants Leasing

25% or More

of Rentable

Square Feet at

December 31, 1995

Property	
Highwoods Office Center	
Amica	Amica Mutual Insurance Company
Arrowood	First Citizens Bank & Trust
Aspen	N/A
Birchwood	Donohoe Construction Company, Southlight, Inc.
Cedar East	Amerimark Building Products
Cedar West	N/A
Cottonwood	First Citizens Bank & Trust
Cypress	GSA-Army Recruiters
Dogwood	First Citizens Bank & Trust
Hawthorn	Carolina Telephone
Highwoods Tower	Maupin, Taylor, Ellis & Adams

Holly	Capital Associated Industries
Ironwood	First Citizens Bank & Trust
Kaiser	Kaiser Foundation
Laurel	Microspace Communications, First
	Citizens Bank & Trust
Leatherwood	GAB North America, Inc.
Smoketree Tower	N/A
Rexwoods Office Center	
2500 Blue Ridge	Rex Hospital, Inc.
Blue Ridge II	McGladrey & Pullen
Rexwoods Center	N/A
Rexwoods II	Raleigh Neurology Clinic, Miller
	Building Corporation
Rexwoods III	Piedmont Olson Hensley, Inc.
Rexwoods IV	N/A
Triangle Business Center	
Bldg. 2A	Harris Corporation, AAI Systems
	Management, Inc.
Bldg. 2B	International Paper
Bldg. 3	N/A
Bldg. 7	Broadband Technologies, Inc.
Progress Center	
Cape Fear	N/A
Catawba	GSA -- EPA
CompuChem	CompuChem
North Park	
4800 North Park	IBM-PC Division
4900 North Park	N/A
5000 North Park	N/A
Creekstone Park	
Creekstone Crossing	N/A
Riverbirch	Digital Equipment Corporation,
	Quintiles, Inc.
Willow Oak	AT&T Corporation
Research Commons (3)	
EPA Administration	Environmental Protection Agency
EPA Annex	Environmental Protection Agency
4501 Bldg.	Martin Marietta
4401 Bldg.	Ericsson
4301 Bldg.	Glaxo Wellcome Inc.
4201 Bldg.	Environmental Protection Agency
Hock Portfolio	
Fairfield I	Reliance
Fairfield II	Qualex
Qualex	Qualex
4101 Roxboro	Duke -- Cardiology

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Occupied at December 31, 1995 (2)	Percent Office Finish	Ceiling/Clear Height (Feet)
4020 Roxboro	O	1989	40,000	100%	100%	9
Other Research Triangle Properties						
Colony Corporate Center	O	1985	53,324	100	100	8
Concourse	O	1986	131,645	96	100	9
Expressway One Warehouse	I	1990	59,600	100	5	24
Holiday Inn	O	1984	30,000	100	100	10
Lake Plaza East	O	1984	71,254	95	100	9
Phoenix	O	1990	26,449	91	100	8
Six Forks Center I	O	1982	33,867	95	100	9
Six Forks Center II	O	1983	55,603	94	100	9
Six Forks Center III	O	1987	60,662	99	100	9
South Square I	O	1988	56,401	100	100	9
South Square II	O	1989	58,793	100	100	9
Cotton Building	O	1972	40,035	100	79	8-15
Total or Weighted Average of Research Triangle Properties			3,702,030	94%		
			Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1995			
Property			Duke -- Pediatrics			
4020 Roxboro			Duke -- Cardiology			
Other Research Triangle Properties						
Colony Corporate Center			Rust Environmental & Infrastructure, Fujitsu			
Concourse			Clintrials			
Expressway One Warehouse			West's Durham Transfer & Storage			
Holiday Inn			Holiday Inns, Inc.			
Lake Plaza East			N/A			
Phoenix			N/A			
Six Forks Center I			Centura Bank			
Six Forks Center II			N/A			
Six Forks Center III			EDS			
South Square I			Blue Cross and Blue Shield			
South Square II			Coastal Healthcare Group, Inc.			
Cotton Building			Cotton Inc., Associated Insurances Inc.			
Total or Weighted Average of Research Triangle Properties						

## Piedmont Triad Properties

Airpark East						
Highland Industries	S	1990	12,500	100	48	18
Service Center 1	S	1985	18,575	100	96	14
Service Center 2	S	1985	18,672	100	94	14
Service Center 3	S	1985	16,498	86	97	14
Service Center 4	S	1985	16,500	100	100	14
Copier Consultants	S	1990	20,000	100	60	18
Service Court	S	1990	12,600	76	100	16
Bldg. 01	O	1990	24,423	100	100	9
Bldg. 02	O	1986	23,827	100	100	9
Bldg. 03	O	1986	23,182	100	100	9
Bldg. A	O	1986	56,272	70	100	9
Bldg. B	O	1988	54,088	98	100	9
Bldg. C	O	1990	134,893	100	100	9
Sears Cenfact	O	1989	49,504	100	100	9
Warehouse 1	I	1985	64,000	100	21	21
Warehouse 2	I	1985	64,000	100	48	21
Warehouse 3	I	1986	57,600	100	8	21
Warehouse 4	I	1988	54,000	81	89	21
Airpark North						
DC-1	I	1986	112,000	100	7	20
DC-2	I	1987	111,905	100	61	20
DC-3	I	1988	75,000	100	5	20
DC-4	I	1988	60,000	100	8	20
Airpark West						
Airpark I	O	1984	60,000	100	100	9
Airpark II	O	1985	45,680	100	100	9
Airpark IV	O	1985	22,612	100	100	9
Airpark V	O	1985	21,923	100	100	9
Airpark VI	O	1985	22,097	90	100	9
West Point Business Park						
BMF Warehouse	I	1986	240,000	100	3	32



WP-11	I	1988	89,600	100	8	24
WP-12	I	1988	89,600	100	4	30
WP-13	I	1988	89,600	100	2	20
WP-3 & 4	S	1988	18,059	100	54	15
Airpark East						
Highland Industries	Highland Industries, Inc.					
Service Center 1	Genetic Design					
Service Center 2	Genetic Design					
Service Center 3	ECPI					
Service Center 4	Genetic Design					
Copier Consultants	Copier Consultants					
Service Court	Genetic Design					
Bldg. 01	Health & Hygiene					
Bldg. 02	United States Postal Service					
Bldg. 03	Time Warner, Martin Marietta					
Bldg. A	N/A					
Bldg. B	Hewlett-Packard Co., United States Postal Service					
Bldg. C	John Hancock					
Sears Cenfact	Sears Roebuck & Company					
Warehouse 1	Guilford Business Forms, Inc., Safelite Glass Corp.					
Warehouse 2	Volvo GM Heavy Truck Corp., State Street Bank Realty					
Warehouse 3	US Air Inc., Garlock, Inc.					
Warehouse 4	First Data Resources, Inc.					
Airpark North						
DC-1	VSA, Inc.					
DC-2	Sears Roebuck & Co., Summit Pet Products Dist. Inc., Electric South					
DC-3	Fashions Outlet of America, Inc.					
DC-4	RSVP Communications, Inc.					
Airpark West						
Airpark I	Volvo GM Heavy Truck Corp.					
Airpark II	Mohawk Carpet Corporation (4)					
Airpark IV	Max Radio of Greensboro					
Airpark V	NCR Corporation					
Airpark VI	Brookstone College, Anacomp					
West Point Business Park						
BMF Warehouse	Sara Lee Knit Products, Inc.					
WP-11	Microfibres					
WP-12	Norel Plastics, Sara Lee					
WP-13	Sara Lee Knit Products, Inc.					
WP-3 & 4	Tri-Communications, Inc., Royso Safety, Inc.					

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Occupied at December 31, 1995 (2)	Percent Office Finish	Ceiling/ Clear Height (Feet)
WP-5	S	1995	25,200	52%	20%	18
Fairchild Bldg.	I	1990	89,000	100	20	30
LUWA Bahnson Bldg.	O	1990	27,000	100	100	9
University Commercial Center						
W-1	I	1983	44,400	100	1	24
W-2	I	1983	46,500	100	7	24
SR-1	S	1983	23,112	100	68	16
SR-2 01/02	S	1983	17,282	100	67	16
SR-3	S	1984	23,825	65	70	16
Bldg. 01/02	O	1983	9,993	40	100	9
Bldg. 03	O	1985	37,077	79	100	9
Bldg. 04	O	1986	34,470	60	100	9
Ivy Distribution Center (5)	I	1930- 1980	400,000	55	2	14-16
Knollwood Office Center						
370 Knollwood	O	1994	90,315	100	100	9
380 Knollwood	O	1990	164,141	98	100	9
Stoneleigh Business Park						
7327 W. Friendly Ave.	S	1987	11,180	100	59	11
7339 W. Friendly Ave.	S	1989	11,784	100	59	11
7341 W. Friendly Ave.	S	1988	21,048	100	36	12
7343 W. Friendly Ave.	S	1988	13,463	100	36	12
7345 W. Friendly Ave.	S	1988	12,300	100	36	12
7347 W. Friendly Ave.	S	1988	17,978	100	36	12
7349 W. Friendly Ave.	S	1988	9,840	100	36	12
7351 W. Friendly Ave.	S	1988	19,723	100	36	12
7353 W. Friendly Ave.	S	1988	22,826	100	36	12
7355 W. Friendly Ave.	S	1988	13,296	100	36	12
Spring Garden Plaza						
4000 Spring Garden St.	S	1983	21,773	86	69	14
4002 Spring Garden St.	S	1983	6,684	100	69	14
4004 Spring Garden St.	S	1983	23,724	92	69	14
Pomona Center -- Phase I						
7 Dundas Circle	S	1986	14,760	91	55	12
8 Dundas Circle	S	1986	16,488	100	55	12
9 Dundas Circle	S	1986	9,972	100	55	12
Pomona Center -- Phase II						
302 Pomona Dr.	S	1987	16,488	94	55	12
304 Pomona Dr.	S	1987	4,344	100	55	12
306 Pomona Dr.	S	1987	9,840	63	55	12
308 Pomona Dr.	S	1987	14,184	96	55	12
5 Dundas Circle	S	1987	14,184	83	55	12
Westgate on Wendover -- Phase I						
305 South Westgate Dr.	S	1985	5,760	83	54	12
307 South Westgate Dr.	S	1985	12,672	100	54	12
309 South Westgate Dr.	S	1985	12,960	100	54	12
311 South Westgate Dr.	S	1985	14,400	100	54	12
315 South Westgate Dr.	S	1985	10,368	89	54	12
317 South Westgate Dr.	S	1985	15,552	98	54	12
319 South Westgate Dr.	S	1985	10,368	100	54	12
Westgate on Wendover -- Phase II						
206 South Westgate Dr.	S	1986	17,376	100	65	12
207 South Westgate Dr.	S	1986	26,448	100	65	12
300 South Westgate Dr.	S	1986	12,960	100	65	12
4600 Dundas Circle	S	1985	11,922	100	65	12
4602 Dundas Circle	S	1985	13,017	61	65	12
Radar Road						
500 Radar Rd.	I	1981	78,000	100	4	21
502 Radar Rd.	I	1986	15,000	100	10	18
504 Radar Rd.	I	1986	15,000	100	10	18

Tenants Leasing  
25% or More  
of Rentable

Square Feet at  
December 31, 1995

Property	
WP-5	N/A
Fairchild Bldg.	Fairchild Industrial Products
LUWA Bahnson Bldg.	Luwa Bahnson, Inc.
University Commercial Center	
W-1	Lagenthal Corp.
W-2	Paper Supply Company
SR-1	N/A
SR-2 01/02	Decision Point Marketing
SR-3	Decision Point Marketing
Bldg. 01/02	N/A
Bldg. 03	N/A
Bldg. 04	N/A
Ivy Distribution Center (5)	N/A

Knollwood Office Center	Krispy Kreme, Prudential
370 Knollwood	Carolinas Realty
380 Knollwood	N/A
Stoneleigh Business Park	American Telecom, Salem Imaging
7327 W. Friendly Ave.	IKEA, R.F. Micro Devices
7339 W. Friendly Ave.	R.F. Micro Devices
7341 W. Friendly Ave.	Executone
7343 W. Friendly Ave.	Disston
7345 W. Friendly Ave.	Law Engineering, Winship
7347 W. Friendly Ave.	N/A
7349 W. Friendly Ave.	General Transport, Burlington Air
7351 W. Friendly Ave.	Express
7353 W. Friendly Ave.	Office Equipment, Windsor Door
7355 W. Friendly Ave.	R.F. Micro Devices
Spring Garden Plaza	N/A
4000 Spring Garden St.	Jordan Graphics
4002 Spring Garden St.	N/A
4004 Spring Garden St.	
Pomona Center -- Phase I	
7 Dundas Circle	N/A
8 Dundas Circle	N/A
9 Dundas Circle	Netcom, Conservatop Corporation
Pomona Center -- Phase II	
302 Pomona Dr.	
304 Pomona Dr.	Fortune Personnel Consultants
306 Pomona Dr.	AEL Defense Corporation
308 Pomona Dr.	Hering North America
5 Dundas Circle	
Westgate on Wendover -- Phase I	
305 South Westgate Dr.	Alarmguard, The Computer Store
307 South Westgate Dr.	Anders Lufvenholm
309 South Westgate Dr.	Network Information, McRae
	Graphics
311 South Westgate Dr.	N/A
315 South Westgate Dr.	N/A
317 South Westgate Dr.	N/A
319 South Westgate Dr.	N/A
Westgate on Wendover -- Phase II	
206 South Westgate Dr.	Home Care of the Central
	Carolinas
207 South Westgate Dr.	Health Equipment Services
300 South Westgate Dr.	N/A
4600 Dundas Circle	Oakwood Homes, Aquaterra, Inc.
4602 Dundas Circle	Four Seasons Apparel
Radar Road	
500 Radar Rd.	Amoco Foam
502 Radar Rd.	East Texas Distributing
504 Radar Rd.	Triad International Maintenance,
	Dayva Industries

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Occupied at December 31, 1995 (2)	Percent Office Finish	Ceiling/ Clear Height (Feet)
506 Radar Rd.	I	1986	15,000	100%	10%	18
Holden/85 Business Park						
2616 Phoenix Dr.	I	1985	31,894	100	32	10
2606 Phoenix Dr. -- 100	S	1989	15,000	100	32	10
2606 Phoenix Dr. -- 200	S	1989	15,000	100	32	10
2606 Phoenix Dr. -- 300	S	1989	7,380	83	32	10
2606 Phoenix Dr. -- 400	S	1989	12,300	90	32	10
2606 Phoenix Dr. -- 500	S	1989	15,180	100	32	10
2606 Phoenix Dr. -- 600	S	1989	18,540	90	32	10
Industrial Village						
7906 Industrial Village Rd.	I	1985	15,000	100	15	18
7908 Industrial Village Rd.	I	1985	15,000	100	15	18
7910 Industrial Village Rd.	I	1985	15,000	100	15	18
Other Piedmont Triad Properties						
6348 Burnt Poplar	I	1990	125,000	100	4	20
6350 Burnt Poplar	I	1992	57,600	100	3	20
Stratford	O	1991	135,533	97	100	9
Chesapeake	I	1993	250,000	100	3	28
3288 Robinhood	O	1989	19,599	83	100	9
Total or Weighted Average of Piedmont Triad Properties			4,152,233	93%		
Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1995						
Property	Triad International Maintenance, American Coatings					
506 Radar Rd.						
Holden/85 Business Park						
2616 Phoenix Dr.	Pliana, Inc.					
2606 Phoenix Dr. -- 100	Piedmont Plastics, Rexham Corp.					
2606 Phoenix Dr. -- 200	REHAU, Inc., Readervision, Inc.					
2606 Phoenix Dr. -- 300	N/A					
2606 Phoenix Dr. -- 400	Spectrum Financial Services					
2606 Phoenix Dr. -- 500	The Record Exchange					
2606 Phoenix Dr. -- 600	AT&T, Sumitomo Electrical					
Industrial Village						
7906 Industrial Village Rd.	Texas Aluminum					
7908 Industrial Village Rd.						
7910 Industrial Village Rd.	Bullock Distributors, Air Express					
Other Piedmont Triad Properties	Wadkin North America, Inc.					
6348 Burnt Poplar	Sears Roebuck & Co.					
6350 Burnt Poplar	Industries for the Blind					
Stratford	Southern National Bank					
Chesapeake	Chesapeake Display & Packaging					
3288 Robinhood	N/A					
Total or Weighted Average of Piedmont Triad Properties						

## Charlotte Properties

Steele Creek Park						
Bldg. A	I	1989	42,500	100	19	21
Bldg. B	I	1985	15,031	100	20	21
Bldg. E	I	1985	39,300	57	13	21
Bldg. G-1	I	1989	22,500	44	11	21
Bldg. H	I	1987	53,614	64	16	21
Bldg. K	I	1985	19,400	100	25	21
Bldg. N	I	1989	22,000	100	11	21
Highwoods/Forsyth Business Park						
4101 Stuart Andrew Blvd.	S	1984	12,185	100	60	16
4105 Stuart Andrew Blvd.	S	1984	4,528	100	60	16
4109 Stuart Andrew Blvd.	S	1984	15,212	100	60	16
4201 Stuart Andrew Blvd.	S	1982	19,333	69	60	16
4205 Stuart Andrew Blvd.	S	1982	23,401	91	60	16
4209 Stuart Andrew Blvd.	S	1982	15,901	100	60	16
4215 Stuart Andrew Blvd.	S	1982	23,372	95	60	16
4301 Stuart Andrew Blvd.	S	1982	40,601	84	60	16
4321 Stuart Andrew Blvd.	S	1982	12,774	100	60	16
Parkway Plaza						
Building 1	O	1982	58,263	88	100	8

Building 2	O	1983	88,227	93	100	8
Building 3	O	1984	82,307	83	100	8
Building 7 (7)	O	1985	60,722	100	100	8
Building 8 (7)	O	1986	40,615	100	100	8
Building 9 (7)	I	1984	110,000	100	32	26
Other Charlotte Properties						
First Citizens	O	1989	57,214	100	100	9
Total or Weighted Average of Charlotte Properties			879,000	90%		
Steele Creek Park						
Bldg. A			Terrell Gear Drives, Inc.			
Bldg. B			Pumps Parts & Services Inc. (6)			
Bldg. E			Bradman-Lake Inc. (6), Aptech, Inc.			
Bldg. G-1			Safewaste Corp.			
Bldg. H			Sugravo Rallis Engraving			
Bldg. K			Aptech, Inc.			
Bldg. N			Marketing Assoc. International			
Highwoods/Forsyth Business Park						
4101 Stuart Andrew Blvd.			N/A			
4105 Stuart Andrew Blvd.			Re-Directions, Transit & Level Clinic, Bell/Sysco Food			
4109 Stuart Andrew Blvd.			N/A			
4201 Stuart Andrew Blvd.			N/A			
4205 Stuart Andrew Blvd.			N/A			
4209 Stuart Andrew Blvd.			N/A			
4215 Stuart Andrew Blvd.			Cleaning Services Group, Rodan, Inc.			
4301 Stuart Andrew Blvd.			Circle K			
4321 Stuart Andrew Blvd.			Communications Technology			
Parkway Plaza						
Building 1			BASF Corporation			
Building 2			N/A			
Building 3			N/A			
Building 7 (7)			Northwest Mortgage			
Building 8 (7)			Greenpoint Financial Corp.			
Building 9 (7)			Aegis Technologies			
Other Charlotte Properties						
First Citizens			Volvo Car Finance, Inc.			
Total or Weighted Average of Charlotte Properties						

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Occupied at December 31, 1995 (2)	Percent Office Finish	Ceiling/ Clear Height (Feet)
Property		Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1995				

## Richmond Properties

Innsbrook Office Center						
Market American	O	1988	39,306	93%	100%	8
Proctor-Silex	O	1986	58,366	100	100	8
Vantage Place I	O	1987	15,334	90	100	8
Vantage Place II	O	1987	14,223	87	100	8
Vantage Place III	O	1988	14,615	100	100	8
Vantage Place IV	O	1988	14,616	100	100	8
Vantage Point	O	1990	63,867	98	100	16
Innsbrook Tech I	S	1991	18,095	100	58	16
DEQ Technology Center	S	1991	53,999	81	80	16
DEQ Office	O	1991	70,423	100	100	8
Technology Park						
Virginia Center	S	1985	119,064	94	70	14
Total or Weighted Average of Richmond Properties			481,908	95%		
Total or Weighted Average of All Properties			9,215,171	93%		
Innsbrook Office Center						
Market American	Mark IV					
Proctor-Silex	Proctor-Silex, Inc.					
Vantage Place I	Rountrey and Associates					
Vantage Place II	Hastings-Tapley					
Vantage Place III	Stenrich Group, Inc.					
Vantage Place IV	Corvel Healthcare, Cemetary Mgmt.					
Vantage Point	EDS, Colonial Inc.					
Innsbrook Tech I	Air Specialists of VA, Hobbs & Assoc.					
DEQ Technology Center	Virginia State Gov., First Health					
DEQ Office	Virginia State Gov.					
Technology Park						
Virginia Center	N/A					
Total or Weighted Average of Richmond Properties						
Total or Weighted Average of All Properties						

(1) I = Industrial, S = Service Center and O = Office.

(2) Includes 29,000 rentable square feet leased but not occupied.

(3) Research Triangle Foundation of North Carolina, Inc. has a right of first refusal option to purchase any property offered for sale within the confines of the Research Triangle Park.

(4) Mohawk Corporation currently subleases its space to Volvo GM Heavy Truck Corp.

(5) Ivy Distribution Center enables the Company to establish relationships with potential tenants that need large blocks of affordable storage space, frequently on a short-term basis. With the exception of 1989 when the building was renovated to convert it from a manufacturing facility to a bulk warehouse facility, Ivy Distribution Center has produced a positive cash flow every year since its acquisition in 1978.

(6) These tenants have a first right of refusal option to purchase their respective leased properties in the event the Company elects to sell any of these properties pursuant to a bona fide third-party offer to purchase such properties.

(7) Properties subject to ground lease expiring December 31, 2082. Company has option to purchase land during the lease term at the greater of \$35,000 per acre or 85% of appraised value.

## Development Land

As of December 31, 1995, the Company owned approximately 203 acres of land for development. The following table sets forth the location (business park), acreage, build-out capacity and estimated construction costs with respect to the development land (dollars in thousands):

	Location	Acreage	Rentable Square Feet			Estimated Construction Costs
			(Office)	(Industrial)	(Total)	
Business Park						
Capital Center.....	Raleigh	15	165,000	--	165,000	\$ 14,250
Creekstone Park.....	Durham	16	186,000	--	186,000	15,810
Highwoods Office Center North....	Raleigh	18	310,000	--	310,000	26,350
Highwoods Office Center South....	Raleigh	45	525,000	--	525,000	44,625
Research Commons.....	RTP (1)	10	100,000	--	100,000	8,500
Airpark East.....	Greensboro	13	57,000	50,000	107,000	5,020
Airpark North.....	Greensboro	10	20,000	--	20,000	1,600
NationsFord Business Park.....	Charlotte	15	--	170,000	170,000	3,920
West Point Business Park.....	Winston-Salem	35	--	384,000	384,000	8,712
Airport Center Drive (2).....	Greensboro	20	241,000	--	241,000	21,690
Highwoods/Forsyth Park.....	Greensboro	6	--	60,000	60,000	3,600
Total.....		203	1,604,000	664,000	2,268,000	\$154,077

(1) RTP = Research Triangle Park

(2) This land will be acquired in installments as it is placed in service or by June 2000, whichever occurs first. All of the Development Land is zoned and available for office or industrial development and 166 acres have utility infrastructure already in place. The Company believes that the cost of developing the Development Land could be financed with the funds available from the Company's existing credit facility, additional borrowings and offerings of equity securities. The Company believes that its commercially zoned and unencumbered land in existing business parks gives the Company an advantage in its future development activities over other commercial real estate development companies in the Research Triangle, the Piedmont Triad and Charlotte. Any future development, however, is dependent on the demand for industrial or office space in the area, the availability of favorable financing and other factors, and no assurance can be given that any construction will take place on the Development Land. In addition, if construction is undertaken on the Development Land, the Company will be subject to the risks associated with construction activities, including the risk that occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable, construction costs may exceed original estimates and construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction expense. Option Land

The Company has options to purchase or rights of first refusal to purchase, lease or develop a total of 166 acres of undeveloped land (the "Option Land") at locations adjacent to Properties in two existing business parks. The Company has long-term rights of first refusal to purchase, lease or develop: (i) 147 acres in the Expressway Commerce Center, which is targeted for development of warehouses and service center facilities and (ii) 19 acres adjacent to Creekstone Park, which is targeted for service center development. The Company believes that its options to purchase and rights of first refusal to purchase and develop the Option Land may provide a competitive advantage regarding its future development activities in the Research Triangle. Such future development, however, is dependent on the availability of favorable financing and other factors, and no assurance can be given that any of the Option Land will be purchased or developed by the Company. In connection with the acquisition of the Hock Portfolio, the Company has obtained certain rights to purchase or develop approximately 78 acres of land.

### Third-Party Purchase Options

Five of the Properties are subject to purchase options in favor of existing tenants during the terms of their leases. Highland Industries, Inc. has the option during the term of its lease to purchase the Highlands Building in Airpark East for a purchase price of \$1,034,000 during each of the first five years of the lease term and, thereafter, at decreasing amounts through the tenth year of the lease term when the price will be \$926,000. Although the Company believes that the option purchase price on the Highlands Building is currently at or above the current fair market value of the subject property, no assurance can be given that such price will be equal to the fair market value of such property at the time the option is exercised. Marketing Associates International, Inc. has an option to purchase the building it occupies in Steele Creek Park for a purchase price of \$900,000. On March 31, 1995, the option was extended for one year upon payment of \$25,000. The extension payments may be applied to the purchase price which remains at \$900,000 during the first extension period and may be increased above \$900,000 during the second extension period based upon the percentage increase in the Consumer Price Index ("CPI"). Marketing Associates International, Inc. has notified the Company that it will exercise its purchase option on March 31, 1996. Pump Parts & Services, Inc. has an option to purchase the building it occupies in Steele Creek Park for a purchase price of \$37.37 per square foot (\$561,708), subject to a minimum increase in the per square foot purchase price of 5% per year. One of the tenants of Rexwoods II has an option to purchase 33% of the property in December 1998 for cash at the then-current fair market value, as to be determined by an independent appraiser. In addition, Glaxo Wellcome has the option to purchase the 4301 Building at Research Commons from March 1997 to the earlier of the lease termination or March 2003 for cash at the then-current fair market value to be determined by an appraiser chosen by the Company, provided the terms of such purchase are acceptable to the Company and Glaxo Wellcome.



**ITEM 3. LEGAL PROCEEDINGS**

None.

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

None.

**ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth certain information with respect to the directors and executive officers of the Company:

Name	Age	Principal Occupations and Other Directorships
O. Temple Sloan, Jr.	56	Director and Chairman of the Board of Directors. Mr. Sloan is a founder of the predecessor of the Company and most recently served as its Secretary-Treasurer. Mr. Sloan also serves as Chairman of General Parts, Inc., a nationwide distributor of automobile replacement parts, which he founded. Mr. Sloan is Vice Chairman of the Board of Trustees of Peace College and is a trustee of St. Andrews College.
Ronald P. Gibson	51	Director, President and Chief Executive Officer. Mr. Gibson is a founder of the Company and has served as its President since its incorporation in 1992 and as managing partner of its predecessor since its formation in 1978. Mr. Gibson is a member the Society of Industrial and Office Realtors and is a director of Capital Associated Industries.
John L. Turner	49	Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner began his career in the real estate industry in 1969 and co-founded Forsyth's predecessor in 1975. Mr. Turner is active in several Piedmont Triad economic development and business recruiting organizations. Mr. Turner serves on the University of North Carolina Board of Visitors and on the Winston-Salem Board of Directors of NationsBank.
William T. Wilson, III	41	Director, Executive Vice President and President of the Company's Forsyth Division. Mr. Wilson joined Forsyth in 1982 and served as its President from 1993 until its merger with the Company. Mr. Wilson serves on the Board of Directors of Amos Cottage Rehabilitation Hospital, an affiliate of the Department of Pediatrics of Bowman Gray School of Medicine, Old Salem, Inc. and Reynolda House, Inc.
Thomas W. Adler	55	Director. Mr. Adler is Chairman and a Principal of Cleveland Real Estate Partners, a fee-based real estate service company based in Cleveland, Ohio. Mr. Adler helped create the Grubb and Ellis Institutional Investment Group and previously served as its President. Mr. Adler served five years as a member of the Executive Committee and Board of Governors of the National Association of Real Estate Investment Trusts, and he was national president in 1990 of the Society of Industrial and Office Realtors. Mr. Adler formerly served on the Board of Directors of the National Association of Realtors and currently serves on the Board of Governors of the American Society of Real Estate Counselors. He is an active member of the Urban Land Institute.
William E. Graham	66	Director. Mr. Graham is a lawyer in private practice with the firm of Hunton & Williams. Before joining Hunton & Williams on January 1, 1994, Mr. Graham was Vice Chairman of Carolina Power & Light Company and had previously served as its general counsel. Mr. Graham is a former member of the Board of Directors of Carolina Power & Light Company and currently serves on the Raleigh Board of Directors of NationsBank. He also serves on the Board of Directors of BB&T Mutual Funds Group and is a former Director of Kaiser Foundation Health Plan of North Carolina.
Robert L. Kirby	65	Director. Mr. Kirby is a self-employed management consultant. Before retiring from the banking business in 1990, Mr. Kirby spent 34 years with NationsBank and its predecessor, North Carolina National Bank. At the time of his retirement, he was President and a member of the Board of Directors of NCNB National Bank of Florida. Mr. Kirby is a member of the Boards of Directors of NationsBank of Texas, N.A. and Cato Corporation.

Name	Age	Principal Occupations and Other Directorships
L. Glenn Orr, Jr.	55	Director. Mr. Orr is the Chairman, President and Chief Executive Officer of Orr Management Co. He served as Chairman of the Board of Directors, President and Chief Executive Officer of Southern National Corporation until its merger with Branch Banking & Trust. Mr. Orr continues to be a director of the merged bank. Mr. Orr, who previously served as President and Chief Executive Officer of Forsyth Bank and Trust Co. and President of Community Bank in Greenville, S.C., is former President of the North Carolina Bankers Association. He is a trustee of Wake Forest University and the University of North Carolina at Greensboro.
Stephen Timko	67	Director. Mr. Timko is a partner of JHPB Partners, a limited partner of the Operating Partnership. He has served as Associate Vice President of Financial Affairs for Temple University and Chief Financial Officer and Executive Vice President of Finance and Administration for Beaunit Corporation. Mr. Timko currently serves as Treasurer for Beaunit Corporation.
Edward J. Fritsch	37	Vice President, Secretary and President of the Company's Research Triangle Division. Mr. Fritsch joined the Company in 1982 and currently serves as President of the Company's Highwoods Division. Mr. Fritsch is a Certified Property Manager.
Carman J. Liuzzo	35	Vice President, Chief Financial Officer and Treasurer. Mr. Liuzzo joined the Company in 1994 and currently serves as Chief Financial Officer. Prior to joining the Company, Mr. Liuzzo was Vice President and Chief Accounting Officer for Boddie-Noell Enterprises, Inc. and Boddie-Noell Restaurant Properties, Inc. Mr. Liuzzo is a certified public accountant.

#### Employment Agreements

The Company's executive officers generally have employment agreements with the Company with a three-year duration. Messrs. Gibson and Fritsch have employment agreements through June 1997, and Messrs. Turner, Wilson and Liuzzo have employment agreements through February 1998. Each contract includes provisions restricting the officers from competing with the Company during employment and, except in certain circumstances, for a limited period of time after termination of employment. Each of the employment contracts provides for severance payments in the event of termination by the Company without cause equal to the officer's base salary for the later of one year from the date of termination or the expiration of the three-year employment agreement.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED

#### STOCKHOLDER MATTERS

The Common Stock has been traded on the NYSE under the symbol "HIW" since the Company's initial public offering. The following table sets forth the quarterly high and low sales prices per share reported on the NYSE for the periods indicated and the distributions paid per share for each such period.

Period or Quarter Ended:	1995			1994		
	High	Low	Distribution	High	Low	Distribution
March 31.....	\$22.00	\$19.88	\$0.425	--	--	--(1)
June 30.....	25.50	21.25	0.45	\$21.68	\$19.68	0.075(2)
September 30.....	26.88	23.88	0.45	21.13	19.75	0.425
December 31.....	28.38	25.50	0.45	21.68	18.50	0.425

(1) Prior to the Company's June 14, 1994, initial public stock offering.

(2) No distribution was paid during this period. The accrued distribution of \$0.075 per share was paid on November 16, 1994 at the time the Company paid its initial distribution for the period from inception to September 30, 1994. On March 1, 1996, the last reported sale price of the Common Stock on the NYSE was \$30.00 per share. On March 1, 1996, the Company had 516 stockholders of record. The Company intends to continue to pay regular quarterly distributions to holders of shares of Common Stock and holders of Units. Although the Company intends to maintain its current distribution rate, future distributions by the Company will be at the discretion of the Board of Directors and will depend on the actual funds from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant. During the year ended 1995, the Company's distributions totalled \$25,348,000 of which \$2,226,000 represented return of capital for financial statement purposes. The minimum per share distribution required to maintain REIT Status was approximately \$1.55 per share in 1995 and \$.48 per share in 1994. The Company has instituted a Dividend Reinvestment and Stock Purchase Plan under which holders of Common Stock may elect automatically to reinvest their distributions in additional shares of Common Stock and may make optional cash payments for additional shares of Common Stock. The Company may issue additional shares of Common Stock or, with respect to reinvested distributions, repurchase Common Stock in the open market for purposes of financing its obligations under the Dividend Reinvestment and Stock Purchase Plan.

**ITEM 6. SELECTED FINANCIAL DATA** The following table sets forth selected financial and operating information for the Company as of December 31, 1995 and 1994, for the year ended December 31, 1995, and for the period from June 14, 1994 (commencement of operations) to December 31, 1994. The following table also sets forth selected financial and operating information on a historical basis for the Highwoods Group (the predecessor to the Company) as of and for each of the years in the five-year period ended December 31, 1993, and for the period from January 1, 1994, to June 13, 1994. Due to the impact of the initial formation of the Company and the initial public offering in 1994, the second and third offerings in 1995 and the transactions more fully described in "Management's Discussion and Analysis -- Overview and Background," the historical results of operations for the years ended December 31, 1991, 1992, 1993 and 1994 may not be comparable to the current period results of operations.

# The Company and the Highwoods Group

	Company	Highwoods Group	Year ended December 31,			
	Year Ended	June 14,	January 1,			
	December 31,	1994 to	1994 to			
	1995	December 31,	June 13,	Highwoods Group		
		1994	1994	1993	1992	1991
	(Dollars in thousands, except per share amounts)					
Operating Data:						
Total revenue.....	\$ 73,522	\$ 19,442	\$ 6,648	\$13,450	\$12,532	\$ 9,774
Rental property						
operating expenses.....	17,049(1)	5,110(1)	2,596(2)	6,248(2)	5,587(2)	4,467(2)
General and administrative.....	2,737	810	280	589	694	690
Interest expense.....	13,720	3,220	2,473	5,185	5,059	3,908
Depreciation and amortization.....	11,082	2,607	835	1,583	1,431	1,135
Income (loss) before minority interest.....	28,934	7,695	464	(155)	(239)	(426)
Minority interest.....	(4,937)	(808)	--	--	--	--
Income before extraordinary item.....	23,997	6,887	464	(155)	(239)	(426)
Extraordinary item-loss on early						
extinguishment of debt.....	(875)	(1,273)	--	--	--	--
Net income (loss).....	\$ 23,122	\$ 5,614	\$ 464	\$ (155)	\$ (239)	\$ (426)
Net income per						
common share.....	\$ 1.49	\$ .63				
Balance Sheet Data						
(at end of period):						
Real estate, net of						
accumulated depreciation.....	\$ 593,066	\$ 207,976	\$ --	\$51,590	\$46,626	\$44,554
Total assets.....	621,134	224,777	--	58,679	53,688	48,647
Total mortgages and						
notes payable.....	182,736	66,864	--	64,347	60,279	56,455
Other Data:						
Number of in-service properties.....	191	44	14	14	13	13
Total rentable square feet.....	9,215,171	2,746,219	816,690	816,690	794,174	794,174

(1) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security and utilities.

(2) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security, utilities, leasing, development, and construction expenses.

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

### Overview and Background

The Highwoods Group (the predecessor to the Company) was comprised of 13 office properties and one warehouse facility (the "Highwoods-Owned Properties"), 94 acres of development land and the management, development and leasing business of Highwoods Properties Company ("HPC"). On June 14, 1994, following completion of the Company's initial public offering of 8,510,000 shares of Common Stock at a price of \$21.00 per share, the Company, through a business combination involving entities under varying common ownership, succeeded to the Highwoods-Owned Properties, HPC's real estate business and 27 additional office properties owned by unaffiliated parties (such combination being referred to as the "Formation Transaction"). The Company acquired three additional Properties in 1994 after the Formation Transaction. During the year ended December 31, 1995, the Company acquired 144 Properties encompassing 6,357,000 square feet at a initial cost of \$369,900,000. The following table summarizes the mergers and acquisitions completed during the year ended December 31, 1995 (dollars in thousands):

Property	Location	Number of Properties	Rentable Square Feet	Initial Cost
Forsyth Transaction	Piedmont Triad/Charlotte	57	3,630,565	\$169,900
Richmond Expansion	Richmond	10	362,844	28,700
Research Commons	Research Triangle	6	539,310	60,000
Creekstone Crossing	Research Triangle	1	59,299	4,500
Bissell Portfolio	Piedmont Triad/Charlotte	56	920,283	36,900
Hock Portfolio	Research Triangle	5	274,604	21,200
Six Forks I & II	Research Triangle	2	89,470	8,800
Cotton	Research Triangle	1	40,035	2,400
Parkway Plaza	Charlotte	6	440,134	37,500
Total		144	6,356,544	\$369,900

Minority interest in the Company represents the limited partnership interest owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns the Company's properties and through which the Company, as the sole general partner, conducts substantially all of its operations.

The combined financial statements of the Highwoods Group for the two years ended December 31, 1993, include the accounts of the management, leasing and development operations of HPC and the partnerships that owned 14 buildings and two parcels of development land. The Highwoods Group's financial statements have been presented on a combined basis because of the affiliated general partners and common management of the Highwoods-Owned Properties. Given the effect of the acquisitions discussed above, the results of the Highwoods Group for the period from January 1, 1994, to June 13, 1994, and for the year ended December 31, 1993, are not comparable to the current operations of the Company.

This information should be read in conjunction with the accompanying consolidated and combined financial statements and the related notes thereto.

The pro forma operating data for the year ended December 31, 1994 assumes completion of the Initial Public Offering and the Formation Transaction as of January 1, 1994. See Note 1 "Organization and Formation of the Company." Results of Operations

Comparison of the Company 1995 to the Company Pro Forma 1994 For the year ended December 31, 1995 total revenues were comprised of \$71,217,000 of rental revenues and \$2,305,000 of interest and other income. For the year ended December 31, 1994 pro forma total

revenues included \$33,626,000 of rental revenues, \$200,000 in distributions from Highwoods Services, Inc. and \$456,000 of interest income. The \$37,591,000 increase in rental income from pro forma 1994 to 1995 was primarily attributable to the rental revenue derived from properties acquired during 1995. Revenues from the Company's initial portfolio of 41 properties increased by 2.1% over the comparable 1994 period. Vacancies in Smoketree Tower and Cape Fear partially offset rental rate increases and occupancy gains in other properties. The increase in interest income from \$465,000 in pro forma 1994 to \$2,305,000 in 1995 was due primarily to the increase in short-term investments during the three month period following the Company's Third Offering in August 1995. Rental property expenses represented 23.9% of rental revenues in 1995 compared to 28.8% for pro forma 1994. The decline in this ratio was a result of increased operating efficiencies and the addition of revenues from industrial properties in 1995. Industrial properties are generally leased on a "triple net" basis with the tenant paying all operating costs. General and administrative expenses increased from \$1,134,000 or 3.3% of total revenues for pro forma 1994 to \$2,737,000 or 3.7% of total revenues for 1995. The increase in general and administrative expenses was a result of the growth of the Company's operations into the Piedmont Triad and Richmond.

Interest expense increased from \$5,604,000 for pro forma 1994 to \$13,720,000 for 1995. The increase in interest expense was a result of an increased debt level during 1995 compared to 1994 as the Company financed a portion of its 1995 acquisition activity through the use of debt financing. The Company's interest expense for 1995 included a benefit of \$385,000 as a result of its interest rate protection agreement.

Depreciation and amortization expense increased from \$4,638,000 for pro forma 1994 to \$11,082,000 for 1995. The increase in depreciation and amortization expense reflects the increase in real estate assets during 1995.

Net income before minority interest and extraordinary item equaled \$28,934,000 or \$1.87 per share for 1995 compared to \$13,229,000 or \$1.47 per share for pro forma 1994.

In connection with the repayment of indebtedness related to the Forsyth Transaction, the Company incurred prepayment penalties of \$1,047,000. This amount was recorded as an extraordinary item and is presented in the consolidated financial statement as (\$875,000), net of the minority interest in such loss.

Comparison of the Company Pro Forma 1994 to the Highwoods Group for the Year Ended December 31, 1993

For 1994, total revenue on a pro forma basis was \$34,282,000 compared to historical revenues of \$13,450,000 for the Highwoods Group for the same period of 1993. The net increase is primarily attributed to the addition of 27 additional office properties in connection with the initial public offering and increased occupancy of the Highwoods Group offset by the decrease in non-rental revenue (leasing, development and construction) due to the Company accounting for its interest in Highwoods Realty Services, Inc. and Highwoods Leasing Company under the cost method of accounting. Accordingly, on a pro forma basis, total revenues will include only the distributions from such subsidiaries.

For 1994, rental property operating expenses total \$9,677,000 and equaled 28.8% of rental revenues on a pro forma basis compared to \$4,398,186 and 48.9% of rental revenues for the Highwoods Group on a historical basis for the same period of 1993. This decrease from historical to pro forma, as a percentage of rental revenues, is due primarily to the operations of the Properties on a combined, self-managed basis as compared to separate entities historically. Major components of the decrease in rental operating expenses as a percentage of rental revenues can be attributed to the provision of management and leasing services by employees of the Company for which fees were paid historically.

For 1994 general and administrative expenses equaled \$1,134,000 or 3.3% of total revenues on a pro forma basis compared to \$589,000 or 4.4% of total revenues for 1993. Increased operating efficiencies in 1994 generated the decrease in general and administrative expenses as a percentage of revenues.

For 1994, interest expense totaled \$5,604,000 and equaled 16.3% of total revenues on a pro forma basis compared to \$5,185,000 and 38.6% of total revenues on a historical basis for the Highwoods Group for the same period of 1993. This decrease from historical to pro forma, as a percentage of total revenues, is due primarily to the Company's reduced leverage as a result of the reduction of debt using proceeds from the initial public offering.

The increase in depreciation expense from \$1,583,000 for the Highwoods Group for 1993 to \$4,638,000 for pro forma 1994 was due to the increase in real estate assets during 1994 as the Company increased its portfolio from 14 properties to 30 properties.

For 1994, net income before minority interest would have been \$13,229,000 on a pro forma basis compared to a loss of (\$155,000) on a historical basis for the Highwoods Group for the same period of 1993. Lower interest expense combined with the operating efficiencies gained from operating the Properties on a combined basis and the increased revenues of the Company were the primary reasons for the increase in net income before minority interest from the historical periods to the same periods on a pro forma basis. Highwoods Group -- Comparison of 1993 to 1992 Revenue from rental operations for the Highwoods Group for 1993 increased \$800,000, or 10%, to \$8,984,000, as compared to \$8,184,000 for 1992. Approximately \$360,000 of the increase related to additional lease up of Highwoods Tower, \$165,000 resulted from the acquisition of the Leatherwood and Ironwood properties and \$110,000 resulted from the opening in October 1993 of Rexwoods II. The balance of the increase, approximately \$165,000, related to improved occupancy in the remainder of the portfolio, including approximately \$100,000 in the Hawthorn building. Revenue from leasing, development, and construction income for the Highwoods Group for 1993, increased \$231,000, or 7%, to \$3,721,000, as compared to \$3,490,000 for 1992. This increase was primarily due to the new properties (Highwoods Tower and Rexwoods II) and related construction income earned from the tenants occupying these properties.

Operating expenses (which include property, construction, maintenance, leasing, depreciation, amortization, and marketing, general and administrative expenses) increased \$709,000, or 9%, to \$8,421,000 for 1993, as compared to \$7,712,000 for 1992. This increase resulted primarily from an increase in property operating expenses of \$201,000, an increase in construction and maintenance expense of \$724,000, offset by a decrease in leasing expense of \$263,000 for 1993 as compared to 1992.

General and administrative expenses decreased \$105,000 due to a reduction in professional services, and interest expense increased \$126,000 from additional debt service on Rexwoods II for 1993 as compared to 1992. Depreciation and amortization increased \$152,000 from \$1,431,000 for 1992 to \$1,583,000 for 1993. Depreciation expense on tenant improvements accounted for \$234,000 of the depreciation expense for 1993.

As a result of these changes in rental revenue and expenses, net loss decreased \$84,000, or 35%, to \$155,000 in 1993, as compared to \$239,000 in 1992. Liquidity and Capital Resources

#### Statement of Cash Flows

The Company generated \$43,169,000 in cash flows from operating activities and \$93,443,000 in cash flow from financing activities for the year ended December 31, 1995. The Company utilized \$136,032,000 of this cash flow to invest in real property assets of \$130,411,000 and cash payments to joint venture partners of \$6,593,000.

#### Capitalization

The Company's total indebtedness at December 31, 1995 totaled \$182,736,000 and was comprised of \$6,500,000 outstanding under the Company's current \$80,000,000 Credit Facility (the "Credit Facility"), \$134,687,000 of conventional fixed rate mortgage indebtedness with an average rate of 9.0%, \$36,549,000 outstanding under variable rate mortgages (see below for a discussion of interest rate protection agreements) and a 9%, \$5,000,000 unsecured note.

Based on the Company's total market capitalization of \$836,328,000 at December 31, 1995 (at the December 31, 1995, stock price of \$28.25 and including the conversion of the 3,731,000 Units of minority interest in the Operating Partnership), the Company's debt represented approximately 22% of its total market capitalization.

The Company completed the following financing activities during year ended December 31, 1995:

(Bullet) During the quarter ended March 31, 1995, the Company completed a 5,640,000 share public offering of Common Stock (including 640,000 shares issued pursuant to the underwriter's over allotment option). The net proceeds of the offering totaled \$109,800,000 and were used primarily to retire indebtedness assumed in connection with the Forsyth Transaction.

(Bullet) Also during the quarter ended March 31, 1995, the Company received the proceeds from a \$41,000,000, 20-year fixed rate (8.97%) mortgage loan. After 10 years the loan provides for a rate reset, with each party having the option at that time to put or call the loan, as the case may be. The proceeds from the loan were used, together with the public offering proceeds discussed above, to fund the Forsyth Transaction.

(Bullet) During the quarter ended September 30, 1995, the Company completed a 4,774,989 share public offering of Common Stock (including 574,989 shares issued pursuant to the underwriters' over allotment option). The net proceeds of the public offering totaled \$110,000,000 and were used primarily to retire amounts outstanding under the Company's Credit Facility, to fund the Richmond Expansion, to fund the cost of various development projects and to provide working capital.

(Bullet) Also, during the quarter ended September 30, 1995, the Company received the proceeds from a \$32,000,000, 20-year fixed rate (8.15%) mortgage loan. After 10 years the loan provides for a rate reset and a put/call option (as described above). The proceeds from the loan were used to fund the property acquisitions made during the quarter.

(Bullet) In connection with the acquisition of the Bissell Portfolio, the Company entered into a \$12,250,000, 15-year variable rate mortgage loan with a put/call option at the end of years five and ten. (Bullet) In connection with the Company's 1995 acquisitions, the Company assumed 13 loans with an aggregate outstanding balance on the various transaction closing dates of \$72,500,000 and issued 2,676,000 Units valued at \$57,300,000.

The Credit Facility requires monthly payments of interest only, with the balance of all principal and accrued but unpaid interest due on June 14, 1999. The Credit Facility bears interest at a floating rate equal to 150 basis points over one-month LIBOR, subject to the interest rate protection agreement described below. At December 31, 1995, one-month LIBOR was 5.9%. The Credit Facility is secured by first mortgage liens on a portfolio of 22 Properties. The Company has received a commitment from three commercial banks whereby they will provide the Company with a \$140,000,000 unsecured credit facility (the "New Credit Facility"), which is expected to close March 31, 1996 subject to completion of final documentation. The New Credit Facility will replace the existing Credit Facility.

To protect the Company from increases in interest expense due to changes in the variable rate, the Company: (i) purchased an interest rate cap limiting its exposure to an increase in interest rates (one-month LIBOR plus 150 basis points) to 7.0% with respect to the \$80,000,000 Credit Facility, and (ii) in connection with the \$36,549,000 variable rate mortgages, entered into interest rate swaps which limit its exposure to an increase in the interest rates to 7.24% with respect to the assumed indebtedness. The interest rate on all such variable rate debt is adjusted at monthly intervals, subject to the Company's interest rate protection program. Payments received from the counterparties under the interest rate protection agreements were \$385,000 and \$25,000 for 1995 and 1994, respectively. The Company is exposed to certain losses in the event of non-performance by the counterparties under the cap and swap arrangements. The counterparties are major financial institutions and are expected to fully perform under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under its Credit Facility and the variable rate mortgages, even if such rate were in excess of the rate in the cap and swap agreements. In addition, the Company may incur other variable rate indebtedness in the



future. Increases in interest rates on its indebtedness could increase the Company's interest expense and could adversely affect the Company's cash flow and its ability to pay expected distributions to stockholders.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. Management believes that the Company will have access to the capital resources necessary to expand and develop its business. To the extent that the Company's cash flow from operating activities is insufficient to finance its acquisition costs and other capital expenditures, including development costs, the Company expects to finance such activities through the New Credit Facility and other debt and equity financing.

The Company presently has no plans for major capital improvements to the existing properties, other than normal recurring non-revenue enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the previously discussed Credit Facility. The Company expects to meet certain of its financing requirements through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities of the Company. In addition, the Company anticipates utilizing the Credit Facility and New Credit Facility primarily to fund construction and development activities. The Company does not intend to reserve funds to retire existing mortgage indebtedness or indebtedness under the Credit Facility or New Credit Facility upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of additional equity or debt securities. The Company anticipates that its available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet the capital and liquidity needs of the Company in both the short and long-term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions discussed below may be adversely affected.

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

On January 23, 1996, the Company entered into a letter of intent with Nashville, Tennessee-based Eakin & Smith, Inc. and its affiliates ("Eakin & Smith"), which outlined the principal terms in which the Company and Eakin & Smith would combine their property portfolios, management teams and business operations. Through the combination with Eakin & Smith, the Company will succeed to the ownership of seven 96% leased in-service suburban office buildings totaling 848,000 square feet, a 103,000-square-foot, 50% pre-leased suburban office development project, 18 acres of development land and Eakin & Smith's brokerage and property management operations. The aggregate purchase price, assuming the completion of the in-process development project in December 1996, is expected to total approximately \$100,000,000 and is expected to be paid through the issuance of approximately 1.1 million limited partnership units of Highwoods/Forsyth Limited Partnership or shares of Common Stock, the assumption of approximately \$42 million of indebtedness and cash payments of approximately \$27 million. The aggregate purchase price includes deferred payments totaling \$1,500,000, which are attributable to Eakin & Smith's brokerage and property management operations, that will be paid over a four-year period provided certain annual operating measurements are achieved. The Company will fund the cash payments with available capacity under its Credit Facility.

Consummation of the transaction is subject to the completion of due diligence, the execution of a definitive contribution and exchange agreement, the consent of certain lenders, the approval of the transaction by the partners and shareholders of the contributing entities and certain other conditions. Assuming satisfaction of these conditions, the transaction is expected to close in March 1996.

#### Possible Environmental Liabilities

All of the properties, except Burnt Poplar, have been subjected to Phase I environmental reviews. These assessments have not revealed, nor is the Company aware of, any environmental liability that the Company believes would have a material adverse effect on the Company's results of operations, liquidity or capital resources. This projection, however, could prove to be incorrect depending on certain factors. For example, the Company's assessments may not reveal all environmental liabilities or there may be material environmental liabilities of which the Company is unaware. In addition, assumptions regarding groundwork-flow and the existence of contamination are based on available sampling data, and there are no assurances that the data is reliable in all cases. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the Properties will not be affected by tenants, by the condition of land or operations in the vicinity of the Properties (such as the presence of underground storage tanks), or by third parties unrelated to the Company.

Compliance with the Americans with Disabilities Act Under the Americans with Disabilities Act (the "ADA"), all public accommodations and commercial facilities are required to meet certain Federal requirements related to access and use by disabled persons. These requirements became effective in 1992. Compliance with the ADA requirements could require removal of access barriers, and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. Although the Company believes that the Properties are substantially in compliance with these requirements, the Company may incur additional costs to comply with the ADA. Although the Company believes that such costs will not have a material adverse effect on the Company, if required changes involve a greater expenditure than the Company currently anticipates, the Company's results of operations, liquidity and capital resources could be adversely affected.

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

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

Funds from operations and cash available for distributions should not be considered as alternatives to net income as an indication of the Operating Partnership's performance or to cash flows as a measure of liquidity.

Funds from operations and cash available for distribution for the year ended December 31, 1995 and for the period from June 14, 1994 to December 31, 1994 are summarized in the following table (in thousands):

	1995		1994	
	Current Method	New Method	Current Method	New Method
Income before minority interest and extraordinary item.....	\$28,934	\$28,934	\$ 7,695	\$ 7,695
Add (deduct):				
Depreciation and amortization.....	11,082	11,082	2,607	2,607
Amortization of deferred financing costs.....	1,619	--	738	--
Third-party service company cash flow.....	--	--	--	--
Rental income from straight-line rents.....	(1,519)	--	(503)	--
Funds from operations before minority interest.....	40,116	40,016	10,537	10,302
Cash Available for Distribution:				
Add (deduct):				
Rental income from straight-line rents.....	--	(1,519)	--	(503)
Amortization of deferred financing costs.....	--	1,619	--	738
Non-incremental revenue generating capital expenditures:				
Building improvements paid.....	(1,337)	(1,337)	(150)	(150)
Second generation tenant improvements paid.....	(1,884)	(1,884)	(347)	(347)
Second generation lease commissions paid.....	(1,228)	(1,228)	(180)	(180)
Cash available for distribution.....	\$35,667	\$35,667	\$ 9,860	\$ 9,860
Weighted average shares/units outstanding (1).....	18,697	18,697	9,991	9,991
Dividend payout ratio:				
Funds from operations.....	81.5%	81.8%	87.7%	89.7%
Cash available from distribution.....	91.7%	91.7%	93.7%	93.7%

(1) Assumes conversion of Units to shares of Common Stock. Inflation

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

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data are listed under Item 14(a) and filed as part of this report on the pages indicated.

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

None.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section under the heading "Election of Directors" of the Proxy Statement for Annual Meeting of Stockholders to be held April 30, 1996 (the "Proxy Statement") is incorporated herein by reference for information on Directors of the Registrant. See ITEM X in Part I hereof for information regarding executive officers of the Registrant.

### ITEM 11. EXECUTIVE COMPENSATION

#### Compensation of Directors

The Company pays its directors who are not officers of the Company fees for their services as directors. Directors receive annual compensation of \$10,000 plus a fee of \$1,250 (plus out-of-pocket expenses) for attendance in person at each meeting of the Board of Directors, \$500 for each committee meeting attended and \$250 for each telephone meeting of the Board of Directors or of a committee. In addition, upon becoming a director of the Company, each non-employee director received options to purchase 10,000 shares of Common Stock at an exercise price equal to the fair market value at the date of grant. These options vest in four equal annual installments commencing on the first anniversary of the date of grant. Officers of the Company who are directors are not paid any director fees. Executive Compensation

The following table sets forth certain information concerning the compensation of the chief executive officer and the four other most highly compensated executive officers of the Company (the "Named Executive Officers") for the year ended December 31, 1995 and for the period from June 14, 1994 (the date of the IPO) to December 31, 1994:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term	All Other
		Salary	Bonus(1)	Compensation(2) Options(#)	
Ronald P. Gibson	1995	\$ 173,397	\$218,750	20,000	\$ 2,310(3)
President and Chief Executive Officer....	1994	\$ 81,250	\$105,169	40,000	\$ 7,737(3)
John L. Turner	1995	\$ 125,230	\$119,531	45,000	\$ 2,250(3)
Chief Investment Officer(4).....	1994	--	--	--	--
William T. Wilson, III	1995	\$ 111,651	\$114,750	50,000	\$ 2,025(3)
Executive Vice President and President of Forsyth Division(4).....	1994	--	--	--	--
Edward J. Fritsch	1995	\$ 113,750	\$105,000	10,000	\$ 4,559(3)
Vice President, Secretary and President of Research Triangle Division.....	1994	\$ 43,481	\$ 36,575	30,000	\$ 3,838(3)
Carman J. Liuzzo	1995	\$ 99,167	\$ 62,500	10,000	\$ 1,511(3)
Vice President, Chief Financial Officer and Treasurer.....	1994	\$ 41,347	\$ 25,359	25,000	\$25,000(5)

(1) Includes amounts earned in the indicated period which were paid in the following year. Twenty percent of bonus is in the form of units of phantom stock. Employees are credited with a specified number of units of phantom stock equal to such number of shares of Common Stock as could be purchased with 25% of the employee's cash bonus. Five years from the date of the phantom stock grant, employees will receive the value of a share of Common Stock for each unit of phantom stock. At the end of such five-year period, phantom stock holders also receive the value of the dividends paid during the period on the corresponding Common Stock assuming dividend reinvestment. Payouts with respect to phantom stock grants may be made in shares of Common Stock or cash or both. If an executive officer leaves the Company's employ for any reason (other than death, disability or normal retirement) prior to the end of the five-year period, all awards under the deferred compensation plan will be forfeited.

(2) These options will vest in four equal installments on the second, third, fourth and fifth anniversaries of the date of grant. All 1995 amounts were granted in 1996 but were earned in 1995 except that Messrs. Turner and Wilson were each granted 45,000 options in 1995 in connection with the Forsyth Transaction (see the table below captioned "Option Grants in 1995").

(3) Represents amounts contributed by the Company under the Salary Deferral and Profit Sharing Plan.

(4) Messrs. Turner and Wilson became employees of the Company upon the combination with Forsyth Partners in February 1995.

(5) Paid in connection with Mr. Liuzzo's relocation to Raleigh upon joining the Company in June 1994. The following table sets forth certain information with respect to options granted in 1995 to the Named Executive Officers:

#### Option Grants in 1995

Name	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in 1995	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
					5%	10%
Ronald P. Gibson.....	--	--	--	--	--	--
John L. Turner.....	45,000	11.3%	\$ 20.75	February 2005	\$ 587,230	\$ 1,488,152
William T. Wilson, III..	45,000	11.3%	\$ 20.75	February 2005	\$ 587,230	\$ 1,488,152
Edward J. Fritsch.....	--	--	--	--	--	--
Carman J. Liuzzo.....	--	--	--	--	--	--

(1) These options will vest in four equal installments on the second, third, fourth and fifth anniversaries of the date of grant.

(2) Realizable values have been reduced by the per share option exercise price that each optionee will be required to pay to the Company in order to exercise the options. The following table sets forth certain information with respect to options held by the Named Executive Officers at year-end 1995:

#### 1995 Year-End Option Values

Name	Number of Securities Underlying Unexercised Options at 1995 Year-End	Value of Unexercised in-the-Money Options at 1995 Year-End
	Exercisable/Unexercisable	Exercisable/Unexercisable(1)
Ronald P. Gibson.....	-- /40,000	-- /\$290,000
John L. Turner.....	-- /45,000	-- /\$337,500
William T. Wilson, III..	-- /45,000	-- /\$337,500
Edward J. Fritsch.....	-- /30,000	-- /\$217,500
Carman J. Liuzzo.....	-- /25,000	-- /\$181,250

(1) Based on a closing price of \$28.25 per share of Common Stock on December 29, 1995. Employment Contracts  
Messrs. Gibson, Fritsch and Liuzzo entered into three-year employment contracts with the Company in 1994, as did Messrs. Turner and Wilson in 1995. These contracts provide for a minimum annual base salary at the rate of \$150,000 for Mr. Gibson, \$150,000 for Mr. Turner, \$135,000 for Mr. Wilson, \$85,000 for Mr. Fritsch, and \$86,000 for Mr. Liuzzo, which rate may be increased by the Board of Directors. As of December 31, 1995, the annual base salary rate was \$175,000 for Mr. Gibson, \$150,000 for Mr. Turner, \$135,000 for Mr. Wilson, \$120,000 for Mr. Fritsch and \$100,000 for Mr. Liuzzo. Each contract includes

provisions restricting the officers from competing with the Company during employment and, except in certain circumstances, for a limited period of time after termination of employment. Each of the employment contracts provides for severance payments in the event of termination by the Company without cause equal to the officer's base salary at the rate then in effect for the later of one year from the date of termination or three years from the contract date.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The section under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On February 10, 1995, the Operating Partnership acquired the six-building Research Commons office center in exchange for Units and the assumption of certain indebtedness. Mr. Timko, who is a director of the Company, was one of the owners of Research Commons and indirectly received 262,215 Units as a result of the transaction. Mr. Timko may also receive his share of up to 40,000 additional Units, which may be paid in the event the property meets certain performance objectives. Pursuant to the terms of the Research Commons acquisition agreements, if the rentals of the buildings at Research Commons meet certain levels of financial performance, the prior owners of Research Commons are entitled to receive an additional 40,000 Units, subject to increase for accrued dividends from the date of the Company's purchase of Research Commons on any such earn-out Units issued. Earn-out Units will be issued in the event the leases for the 4301 building and the 4501 building at the Research Commons office park are renewed; provided, however, that no earn-out Units are issuable if expenditures related to such renewals exceed \$440,000. As part of the Research Commons acquisition, Mr. Timko was released from guarantees aggregating approximately \$6.3 million relating to indebtedness secured by Research Commons, and the Company assumed a \$5 million promissory note owed by the previous owners of Research Commons (of which Mr. Timko was an affiliate) to Beaunit Corporation, which is also affiliated with Mr. Timko.

On February 23, 1995, the Company and Forsyth Partners combined their property portfolios, management teams and business operations. As part of the combination with Forsyth Partners (the "Forsyth Transaction"), the Company succeeded to the ownership of 58 commercial properties and the management, brokerage, development, construction and related businesses of Forsyth Partners. In connection with the Forsyth Transaction, Messrs. Turner and Wilson contributed their interests in the assets of Forsyth Partners in exchange for the following: Mr. Turner received 399,541 Units (including 43,692 Units in exchange for a promissory note secured by Ivy Distribution Center, which was acquired in the Forsyth Transaction); and Mr. Wilson received 258,204 Units. Each of Messrs. Turner and Wilson also received warrants to acquire 35,000 shares of Common Stock at \$21.00 per share and options to purchase 45,000 shares of Common Stock at \$20.75 per share, which options are exercisable in four equal annual installments commencing on the second anniversary of the date of grant. In addition, (i) Messrs. Turner and Wilson were released from guarantees aggregating approximately \$39.5 million relating to indebtedness secured by properties contributed in the Forsyth Transaction, and (ii) the Operating Partnership indemnified certain owners of Forsyth Partners, including Messrs. Turner and Wilson, for any obligations that may arise under approximately \$2.5 million of additional guarantees relating to indebtedness that was assumed by the Company and was not released by the lender.

On May 25, 1995, the Company purchased Creekstone Crossing, a 59,000-square foot service center (96% office finish) in Raleigh-Durham, North Carolina. The aggregate purchase price was \$4.5 million paid through the issuance of 4,640 Units in the Operating Partnership and the assumption of \$4.4 million of indebtedness. Messrs. Sloan (chairman of the Board of Directors), Gibson (chief executive officer) and Fritsch (vice president) indirectly owned 16.5%, 4.9% and 1.3%, respectively, of the property prior to its sale to the Company.

On December 4, 1995, the Company purchased the Cotton Building, a 40,000-square foot office building in Raleigh-Durham, North Carolina, for approximately \$2.3 million. The purchase price consisted of 23,466 Units (valued at \$25.50) and the assumption of \$1.7 million of indebtedness. Mr. Sloan indirectly owned 50% of the property at the time of its sale to the Company. The property was valued using discount cash flow analysis and by a comparison to other comparable building sale transactions. In accordance with the Company's conflict of interest policies, the purchase price was approved by the Company's independent directors.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 10-K

(a) 1. and 2. Financial Statements and Schedules The financial statements and schedules listed below are filed as part of this annual report on the pages indicated.

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### 3. Exhibits

Exhibit No.		Description
2.1(1)	--	Master Agreement of Merger and Acquisition dated January 9, 1995 by and among Highwoods Realty Limited Partnership, Forsyth Partners Holdings, Inc., Forsyth Partners Brokerage, Inc., John L. Turner, William T. Wilson, III, John E. Reece II, H. Jack Leister and the partnerships and corporations listed therein (list of omitted schedules included)
2.2(1)	--	Agreement pursuant to Item 601(b)(2) of Regulation S-K
2.3(2)	--	Omnibus Option Agreement by and among Highwoods Realty Limited Partnership and the Grantors named therein dated March 24, 1994
3.1(2)	--	Amended and Restated Articles of Incorporation of the Company
3.2(2)	--	Amended and Restated Bylaws of the Company
4.1(2)	--	Specimen of certificate representing shares of Common Stock
10.1(2)	--	Amended and Restated Agreement of Limited Partnership of the Operating Partnership
10.2(5)	--	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein, which the Company and all Unit holders have signed to date
10.3(2)	--	Articles of Incorporation of Highwoods Services, Inc.
10.4(2)	--	Bylaws of Highwoods Services, Inc.
10.5(3)	--	Articles of Incorporation of Forsyth Properties Services, Inc.
10.6(3)	--	Bylaws of Forsyth Properties Services, Inc.
10.7(4)(5)	--	Amended and Restated 1994 Stock Option Plan



Exhibit No.		Description
10.8(a)(1)(4)	--	Employment Agreement between the Company and the Operating Partnership and Ronald P. Gibson
10.8(b)(1)(4)	--	Employment Agreement between the Company and the Operating Partnership and Edward J. Fritsch
10.8(c)(3)(4)	--	Employment Agreement between the Company and the Operating Partnership and Carman J. Liuzzo
10.8(d)(3)(4)	--	Employment Agreement between the Company and the Operating Partnership and John L. Turner
10.8(e)(3)(4)	--	Employment Agreement between the Company and the Operating Partnership and William T. Wilson, III
10.9(2)	--	Option Agreement dated February 24, 1994 between State of California Public Employees' Retirement System and Highwoods Properties Company relating to acquisition of the CalPERS Properties
10.10(2)	--	First Amendment to Option Agreement dated May 1994 between The State of California Public Employees' Retirement System and Highwoods Properties Company
10.11(2)	--	Option Agreement dated March 31, 1994 among Duke University; Ralph W. Mullins, Jr.; Daniel C. Austin; M&A Investment Company; Quail Professional Center II; Quail Corners Office Building, Ltd. and A&M Investment Company and Highwoods Properties Company relating to acquisition of the Austin Mullins Properties (the North Park Properties) and the Option Land adjacent thereto
10.12(2)	--	Form of Right of First Refusal between The Nelson Company and Highwoods Realty Limited Partnership relating to the Option Land in Creekstone Park
10.13(2)	--	Form of Option to Purchase between Rex Drive Associates and Highwoods Properties Company relating to Option Land in the Rexwoods Office Center
10.14(2)	--	Form of Agreement for Sale of Partnership Interests among Rexwoods II Associates, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Rexwoods II
10.15(2)	--	Form of Agreement for Sale of Partnership Interests among Expressway One Partnership, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Expressway One
10.16(2)	--	Form of Agreement for Sale of Partnership Interests among Riverbirch Associates, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Riverbirch
10.17(2)	--	Form of Agreement for Sale of Partnership Interests among The Nelson Company, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Development Land in Creekstone Park
10.18(2)	--	Form of Agreement for Sale of Partnership Interests among Blue Ridge II Associates, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Blue Ridge II
10.19(2)	--	Form of Agreement for Sale of Partnership Interests among Progress Center II Partnership, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of CompuChem
10.20(2)	--	Form of Agreement for Sale of Partnership Interests among Laser Associates, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Rexwoods Center
10.21(2)	--	Form of Agreement for Sale of Partnership Interests among Rexwoods III Associates, Limited Partnership, Highwoods Realty Limited Partnership and the Sellers named therein relating to the purchase of Rexwoods III
10.22(2)	--	Form of Right of First Refusal between Expressway One Partnership and Highwoods Realty Limited Partnership relating to Option Land in Expressway Commerce Center
10.23(1)	--	Form of Supplemental Representations, Warranties and Agreements executed by Stanley O. Kelley to Highwoods Realty Limited Partnership related to the transfer of Ivy Distribution Center
10.24(1)	--	Omnibus Option Agreement dated January 3, 1995 by and among Highwoods Realty Limited Partnership and the Grantors named therein related to the sale of interests in 370 and 380 Knollwood, Ivy Distribution Center and Chesapeake

Exhibit No.	Description
10.25(1)	-- Omnibus Option Agreement dated January 3, 1995 by and among Highwoods Realty Limited Partnership and the Grantors named therein related to the sale of interests in 370 and 380 Knollwood and Ivy Distribution Center
10.26(1)	-- Omnibus Option Agreement dated January 3, 1995 by and between Highwoods Realty Limited Partnership and Stanley O. Kelley related to the sale of interests in Ivy Distribution Center
10.27(1)	-- Omnibus Option Agreement dated January 3, 1995 by and between Highwoods Realty Limited Partnership and A.T. Williams Oil Company related to the sale of interests in 3288 Robinhood
10.28(1)	-- Omnibus Option Agreement dated January 4, 1995 by and between Highwoods Realty Limited Partnership and James F. Marshall related to the sale of interests in Airport East, Airport West, Airport North, West Point Business Park, Steele Creek Park, Woodlawn Plaza, and 370 and 380 Knollwood
10.29(1)	-- Omnibus Option Agreement dated January 6, 1995 by and among Highwoods Realty Limited Partnership and the Grantors named therein related to the sale of interests in Airport East, Airport West, Airport North, West Point Business Park, Steele Creek Park, 370 and 380 Knollwood, Chesapeake, Woodlawn Plaza, University Commercial Center, 3288 Robinhood, the NationsFord Development Land, and the ownership interests in FP Brokerage Partnership, FP Development, FP Construction and FPI
10.30(1)	-- Omnibus Option Agreement dated January 6, 1995 by and between Highwoods Realty Limited Partnership and William T. Wilson, III related to the sale of interests in Airport East, Airport West, Airport North, West Point Business Park, Steele Creek Park, 370 and 380 Knollwood, Chesapeake, Woodlawn Plaza, University Commercial Center, 3288 Robinhood, the NationsFord Development Land, and the ownership interests in FP Brokerage Partnership, FP Development, FP Construction and FPI
10.30(1)	-- Omnibus Option Agreement dated January 6, 1995 by and between Highwoods Realty Limited Partnership and John L. Turner related to the sale of interests in Airport East, Airport West, Airport North, Ivy Distribution Center, West Point Business Park, Steele Creek Park, Chesapeake, Woodlawn Plaza, the NationsFord Development Land, 3288 Robinhood, 370 and 380 Knollwood, University Commercial Center and the ownership interests in Forsyth Partners Brokerage Partnership, FP Development, FP Construction and FPI
10.31(1)	-- Omnibus Option Agreement dated January 3, 1995 by and between Highwoods Realty Limited Partnership and Forsyth Partners Brokerage, Inc. related to the sale of assets to Highwoods Realty Limited Partnership
10.32(1)	-- Omnibus Option Agreement dated January 6, 1995 by and among Highwoods Realty Limited Partnership and the Grantors named therein relating to the sale of interests in 370 and 380 Knollwood, West Point Business Park, Woodlawn Plaza and Chesapeake and the ownership interest in FP Development
10.33(1)	-- Real Estate Purchase and Sale agreement dated August 4, 1994 between Petula Associates, Ltd. and Forsyth Partners Holding, Inc. with amendment dated December 2, 1994, related to the purchase of interests in Airport West, Airport East, Airport North, University Commercial Center, and Steele Creek Park, which agreement will be assigned to Highwoods Realty Limited Partnership
10.34(a)(1)	-- Option Agreement dated July 31, 1994 between Burnt Poplar Associates Limited Partnership and Forsyth Partners Holdings, Inc. related to the acquisition of Burnt Poplar, which agreement will be assigned to Highwoods Realty Limited Partnership
10.34(b)(1)	-- Indemnification Agreement dated September 26, 1994 between Burnt Poplar Associates Limited Partnership and Forsyth Partners Holdings, Inc. related to the acquisition of Burnt Poplar, which agreement will be assigned to Highwoods Realty Limited Partnership

Exhibit No.	Description
10.35(1)	-- Contract of Sale and Purchase dated December 2, 1994 between Stratford Properties Joint Venture and Forsyth Partners Holdings, Inc., with amendment dated December 30, 1994, related to the acquisition of Stratford, which agreement will be assigned to Highwoods Realty Limited Partnership
10.36(1)	-- Contribution and Exchange Agreement dated January 10, 1995 between 4501 Alexander Associates and Highwoods Realty Limited Partnership related to the acquisition of Research Commons
10.37(1)	-- Contribution and Exchange Agreement dated January 10, 1995 between JHPB Partners and Highwoods Realty Limited Partnership related to the acquisition of Research Commons
10.38(5)	-- Contribution and Exchange Agreement by and among the Operating Partnership, R-K Properties 3, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to acquisition of Vantage Point
10.39(5)	-- Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 5, L.P., dated as of July 18, 1995, relating to the acquisition of Innsbrook Tech I Center
10.40(5)	-- Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 1, L.P., dated as of July 18, 1995, relating to the acquisition of Vantage Place II
10.41(5)	-- Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 2, L.P., dated as of July 18, 1995, relating to the acquisition of Vantage Place IV
10.42(5)	-- Asset Purchase Agreement between Ross-Kreckman Management Corporation and Highwoods Services, dated as of July 5, 1995
10.43(5)	-- Contribution and Exchange Agreement by and among the Operating Partnership, Vantage Associates I, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to the acquisition of Vantage Place I
10.44(5)	-- Contribution and Exchange Agreement by and among the Operating Partnership, Vantage Associates II, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to the acquisition of Vantage Place III
10.45(5)	-- Agreement for Contribution and Exchange of Partnership Interests by and among the Operating Partnership, Creekstone Associates I and the Contributors named therein, dated as of May 11, 1995, relating to the acquisition of Creekstone Crossing
10.46(5)	-- Ground Lease Agreement by and between Landlord and Seven Parkway Plaza dated as of July 23, 1985, relating to Parkway Plaza Building 7
10.47(5)	-- Ground Lease Agreement by and between Landlord and Eight Parkway Plaza dated as of July 31, 1986, relating to Parkway Plaza Building 8
10.48(5)	-- Ground Lease Agreement by and between Landlord and Nine Parkway Plaza dated as of April 29, 1984, relating to Parkway Plaza Building 9
10.49(5)	-- Contribution and Exchange of the Cotton Building between SJ Company and the Operating Partnership dated December 4, 1995
10.50(1)	-- Form of warrant issued to Messrs. Turner, Wilson and Reece
10.51(1)	-- Operating Agreement of Forsyth/Carter Brokerage of North Carolina, L.L.C. (included in Exhibit 2.1)
21.1(1)	-- Schedule of Subsidiaries of the Company

(1) Previously filed on Form S-11, File No. 33-88364, and incorporated herein by reference.

(2) Previously filed on Form S-11, File No. 33-76952, and incorporated herein by reference.

(3) A form of this document was previously filed. Copy of executed document filed on Company's Annual Report on Form 10-K for the year ended December 31, 1995.

(4) Management contract or compensatory plan.

(5) Previously filed on Company's Annual Report on Form 10-K for the year ended December 31, 1995. The Company will provide copies of any exhibit, upon written request, at a cost of \$.05 per page.

(b) Reports on Form 8-K There were no reports on Form 8-K filed by the Company during the fourth quarter of 1995.

## REPORT OF INDEPENDENT AUDITORS

### **THE BOARD OF DIRECTORS AND STOCKHOLDERS HIGHWOODS PROPERTIES, INC.**

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. as of December 31, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 1995 and for the period from June 14, 1994 (commencement of operations) to December 31, 1994. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highwoods Properties, Inc. at December 31, 1995 and 1994, and the consolidated results of its operations and cash flows for the year ended December 31, 1995 and for the period from June 14, 1994 (commencement of operations) to December 31, 1994 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information required to be set forth therein.

ERNST & YOUNG LLP

Raleigh, North Carolina

February 2, 1996,

except note 11 as to which the date is

April 29, 1996

**HIGHWOODS PROPERTIES, INC.**  
**Consolidated Balance Sheets**  
(In thousands, except per share amount)

	December 31,	
	1995	1994
Assets		
Real estate assets, at cost:		
Land.....	\$106,955	\$ 34,484
Buildings and improvements.....	491,581	183,572
Development in process.....	15,508	643
Furniture, fixtures and equipment.....	1,288	967
	615,332	219,666
Less -- accumulated depreciation.....	(22,266)	(11,690)
Net real estate assets.....	593,066	207,976
Cash and cash equivalents.....	6,838	6,258
Accounts and notes receivable.....	6,338	496
Notes receivable from service subsidiaries.....	1,274	620
Accrued straight line rents receivable.....	3,407	1,888
Other assets:		
Deferred leasing costs.....	4,253	2,139
Deferred financing costs and interest rate caps.....	8,268	6,796
Prepaid expenses and other.....	1,521	330
	14,042	9,265
Less -- accumulated amortization.....	(3,831)	(1,726)
	10,211	7,539
	\$621,134	\$224,777
Liabilities and stockholders' equity		
Mortgages and notes payable.....	\$182,736	\$ 66,864
Accounts payable, accrued expenses and other liabilities.....	11,052	5,717
Total liabilities.....	193,788	72,581
Minority interest.....	73,536	15,981
Stockholders' equity:		
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 19,404,411 at December 31, 1995 and 8,986,910 at December 31, 1994.....	194	90
Additional paid-in capital.....	355,248	135,531
Retained earnings (distributions in excess of net earnings).....	(1,632)	594
Total stockholders' equity.....	353,810	136,215
	\$621,134	\$224,777

See accompanying notes to consolidated financial statements.

**HIGHWOODS PROPERTIES, INC.**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)

For the Year Ended December 31, 1995 and

for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	1995	1994
Revenue:		
Rental income.....	\$71,217	\$19,011
Equity in earnings of service companies.....	--	100
Interest and other income.....	2,305	331
Total revenue.....	73,522	19,442
Operating expenses:		
Rental property.....	17,049	5,110
Depreciation and amortization.....	11,082	2,607
Interest expense:		
Contractual.....	12,101	2,482
Amortization of deferred financing costs and interest rate cap.....	1,619	738
	13,720	3,220
General and administrative.....	2,737	810
Income before minority interest and extraordinary item.....	28,934	7,695
Minority interest.....	(4,937)	(808)
Income before extraordinary item.....	23,997	6,887
Extraordinary item -- loss on early extinguishment of debt.....	(875)	(1,273)
Net income.....	\$23,122	\$ 5,614
Net income per common share:		
Income before extraordinary item.....	\$ 1.55	\$ 0.77
Extraordinary item -- loss on early extinguishment of debt.....	(.06)	(0.14)
Net income.....	\$ 1.49	\$ 0.63
Weighted average shares outstanding.....	15,487	8,936

See accompanying notes to consolidated financial statements.

**HIGHWOODS PROPERTIES, INC.**  
**Consolidated Statement of Stockholders' Equity**  
(In thousands)

For the Year Ended December 31, 1995 and

for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	Common Stock	Additional Paid-In-Capital	Retained Earnings (Distributions in Excess of Net Earnings)	Total
Balance at June 14, 1994 (commencement of operations)....	\$--	\$ 1	\$--	\$ 1
Issuance of 8,986,190 shares of common stock.....	90	164,324		164,414
Charge to reflect carryover of historical basis of accounting and recognition of minority interest in Operational Partnership for continuing investors.....	--	(28,794)	--	(28,794)
Distributions paid.....	--	--	(5,020)	(5,020)
Net income.....	--	--	5,614	5,614
Balance at December 31, 1994.....	90	135,531	594	136,215
Issuance of 10,418,221 shares of common stock.....	104	219,717	--	219,821
Distributions paid.....	--	--	(25,348)	(25,348)
Net income.....	--	--	23,122	23,122
Balance at December 31, 1995.....	\$194	\$ 355,248	\$ (1,632)	\$353,810

See accompanying notes to consolidated financial statements.

**HIGHWOODS PROPERTIES, INC.**  
**Consolidated Statement of Cash Flows of the Company**  
(In thousands)

For the Year Ended December 31, 1995 and

for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	1995	1994
Operating activities:		
Net income.....	\$ 23,122	\$ 5,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	12,701	3,345
Loss on early extinguishment of debt.....	875	1,273
Minority interest.....	4,937	808
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,561)	(321)
Prepaid expenses and other assets.....	(173)	(521)
Accrued straight line rents receivable.....	(1,519)	(503)
Accounts payable, accrued expenses and other liabilities.....	4,787	3,455
Net cash provided by operating activities.....	43,169	13,150
Investing activities:		
Proceeds from disposition of real estate assets.....	2,200	--
Additions to real estate assets.....	(130,411)	(99,208)
Other assets and notes receivable.....	(1,777)	(620)
Cash from contributed net assets.....	549	2,088
Cash paid in exchange for partnership net assets.....	(6,593)	(9,623)
Net cash used in investing activities.....	(136,032)	(107,363)
Financing activities:		
Distributions paid.....	(29,845)	(5,020)
Net proceeds from the sale of common stock.....	219,821	164,413
Payment of prepayment penalties and loan costs.....	(1,046)	(1,025)
Borrowings on credit facility.....	50,800	62,700
Repayment of credit facility.....	(87,000)	(20,000)
Proceeds from mortgages and notes payable.....	90,250	--
Repayment of mortgages.....	(148,907)	(93,947)
Payment of deferred financing costs.....	(630)	(6,650)
Net cash provided by financing activities.....	93,443	100,471
Net increase in cash and cash equivalents.....	580	6,258
Cash and cash equivalents at beginning of the period.....	6,258	--
Cash and cash equivalents at end of the period.....	\$ 6,838	\$ 6,258
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 11,965	\$ 2,073

See accompanying notes to consolidated financial statements.



**HIGHWOODS PROPERTIES, INC.**  
**Consolidated Statement of Cash Flows of the Company -- Continued**  
(In thousands)

For the Year Ended December 31, 1995 and

for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

Supplemental disclosure of non-cash investing and financing activities

The following summarizes the net assets contributed by the Unit holders of the Operating

Partnership or assets acquired subject to mortgages and notes payable:

	1995	1994
<b>Assets:</b>		
Real estate assets, net.....	\$260,883	\$51,614
Cash and cash equivalents.....	549	2,088
Deferred rent receivable.....	--	1,385
Tenant leasing costs, net.....	--	1,188
Deferred financing costs, net.....	842	488
Accounts receivable and other.....	6,290	174
Total assets.....	268,564	56,937
<b>Liabilities:</b>		
Mortgages payable.....	210,728	63,947
Accounts payable, accrued expenses and other liabilities.....	549	2,262
Total liabilities.....	268,564	66,209
Net assets (liabilities).....	\$ 57,287	\$(9,272)

In connection with the above transactions, the Company made additional cash payments to certain partners in exchange for their partnership net assets in the amounts of \$9,623,000 in 1994 and \$6,593,000 in 1995. These transactions were accounted for using the purchase method of accounting. Further in connection with these transactions, the Company received cash payments at closing to fund the payment of certain accrued liabilities such as property taxes.

Additionally, in connection with the formation of the Company additional debt of \$54,164,000 was assumed and Units valued at \$4,199,000 were issued during the period from June 14, 1994, to December 31, 1994.

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995

### 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Formation of the Company Highwoods Properties, Inc. (the "Company") is a self-administered and self managed real estate investment trust (REIT) which operates in the Southeastern United States. The Company's assets include 87 suburban office properties, 104 industrial properties and 203 acres of undeveloped land suitable for future development. The Company was incorporated in Maryland in February 1994 and is the successor to the operations of the Highwoods Group. On June 14, 1994, the Company commenced operations upon completion of a public offering of 7,400,000 shares of \$.01 par value Common Stock (plus 1,110,000 shares subsequently issued pursuant to the underwriters' over-allotment option, the "Initial Public Offering"). The Initial Public Offering price was \$21 per share resulting in gross offering proceeds of \$178,710,000. Proceeds to the Company, net of underwriters' discount, an advisory fee and total offering expenses, were \$164,481,300. The following transactions (the "Formation Transactions") occurred in connection with the Initial Public Offering:

(Bullet) Through the merger of Highwoods Properties Company ("HPC") into the Company certain investors received 476,190 shares of restricted Common Stock in exchange for their holdings in HPC. (Bullet) The Company consummated various purchase agreements to acquire certain interests in 41 properties, including 27 properties which were not owned by the Highwoods Group prior to the Initial Public Offering. For the 14 properties previously owned by the Highwoods Group, negative net assets of approximately \$9,272,000 were contributed to the Operating Partnership at their historical cost. Approximately, \$8,400,000 was distributed to the non-continuing partners of the Highwoods Group for their partnership interest in the 14 properties. For the 27 properties not owned by the Highwoods Group, the Company issued approximately \$4,200,000 of Units, assumed \$54,164,000 of debt and paid \$82,129,000 in cash. These 27 properties were recorded at their purchase price using the purchase method of accounting.

(Bullet) The Company became the sole general partner of Highwoods/Forsyth Limited Partnership, formerly Highwoods Realty Limited Partnership (the "Operating Partnership"), by contributing its ownership interests in the 41 properties and its third-party fee business and all but \$10,400,000 of the net proceeds of the Initial Public Offering in exchange for an approximate 88.3% interest in the Operating Partnership.

(Bullet) The Operating Partnership executed various option and purchase agreements whereby it paid approximately \$81,352,000 in cash, issued 1,054,664 units in the Operating Partnership ("Units") and assumed approximately \$118,111,000 of indebtedness in exchange for fee simple interests in the 41 properties and the development land.

(Bullet) The Operating Partnership contributed the third-party management and development business and the third-party leasing business to Highwoods Services, Inc. (formerly Highwoods Realty Services, Inc. and Highwoods Leasing Company) in exchange for 100% of each company's non-voting common stock and 1% of their voting common stock.

Generally one year after issuance (the "lock-up period"), the Operating Partnership is obligated to redeem each Unit at the request of the holder thereof for cash equal to the fair market value of one share of the Company's Common Stock at the time of such redemption, provided that the Company at its option may elect to acquire any such Unit presented for redemption for one share of Common Stock. When a Unit

## HIGHWOODS PROPERTIES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued holder redeems a Unit for a share of Common Stock or cash, the minority interest will be reduced and the Company's share in the Operating Partnership will be increased. The Company's units are not redeemable for cash. At December 31, 1995, the one-year lock-up period had expired with respect to 1,054,664 of the 3,732,412 Units issued. Basis of Presentation

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

The Company is a real estate investment trust ("REIT") under Section 856 through 860 of the Internal Revenue Code of 1986, as amended. Minority interest in the Company represents the limited partnership interest in the Operating Partnership owned by various individuals and entities and not the Company. This minority interest relates to holders of Units. Per share information is calculated using the weighted average number of shares outstanding.

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt and is shown net of the minority interest's share in the loss. Real Estate Assets

Real estate assets are stated at the lower of cost or net realizable value. All capitalizable costs related to the improvement or replacement of commercial real estate properties are capitalized. Depreciation is computed by the straight-line method over the estimated useful life of 40 years for buildings and improvements and 5 to 7 years for furniture and equipment. Tenant improvements are amortized over the life of the respective leases, using the straight-line method.

The Company reviews each property for any evidence of possible impairment of carrying value based on estimated future cash flows. Based on this analysis, as of December 31, 1995 and 1994 the carrying value of all properties is below their estimated net realizable values.

In March 1995, the FASB issued Statement No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted the Statement in the first quarter of 1996 and the adoption did not have any material effect. Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Revenue Recognition

Minimum rental income is recognized on a straight-line basis over the term of the lease. Unpaid rents are included in accounts receivable. Certain lease agreements contain provisions which provide reimbursement of real estate taxes, insurance, advertising and certain common area maintenance (CAM) costs. These additional rents are recorded on the accrual basis. All rent and other receivables from tenants are due from commercial building tenants located in the properties.

## HIGHWOODS PROPERTIES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

#### 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued

Deferred Lease Fees and Loan Costs Lease fees, concessions and loan costs are capitalized at cost and amortized over the life of the related lease or loan term, respectively. Income Taxes

The Company is a real estate investment trust ("REIT") for federal income tax purposes. A corporate REIT is a legal entity that holds real estate interests, and through distributions to stockholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level. To maintain qualification as a REIT, the Company must distribute to stockholders at least 95% of REIT taxable income.

No provision has been made for income taxes because the Company qualified as a real estate investment trust, distributed the necessary amount of taxable income and, therefore, incurred no income tax expense during the period. Concentration of Credit Risk

Management of the Company performs ongoing credit evaluations of its tenants. The properties are leased to approximately 950 tenants, in four geographic locations, which engage in a wide variety of businesses. There is no dependence upon any single tenant.

#### Interest Rate Risk Management

The Company enters into various interest rate swaps and caps in managing its interest rate risk. Payments to or from the counterparties are recorded as adjustments to interest expense. The Company has designated these instruments as hedges against existing liabilities and accordingly utilizes hedge accounting.

The Company would not realize a material loss as of December 31, 1995 in the event of non-performance by any one counterparty. The Company has entered into transactions with financial institution counterparties with a credit rating of Aa3 or better. Additionally, the Company limits the amount of credit exposure with any one institution.

#### Stock Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and, accordingly, recognizes no compensation expense for the stock option grants. In accordance with the FASB's issuance of FAS No. 123 "Accounting for Stock Based Compensation" the Company will elect to provide the required footnote disclosures in 1996.

#### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

2. MORTGAGES AND NOTES PAYABLE Mortgages and notes payable consisted of the following at December 31, 1995 and 1994 (in thousands):

	1995	1994
Conventional fixed rate mortgages payable (a.).....	\$134,687	\$24,164
Variable rate mortgages payable (b.).....	36,549	--
9% fixed rate unsecured note payable.....	5,000	--
Revolving credit facility (c.).....	6,500	42,700
Total.....	\$182,736	\$66,864

(a.) Conventional fixed rate mortgages payable includes 19 loans at December 31, 1995, and seven loans at December 31, 1994. The loans were secured by real estate assets with an aggregate undepreciated cost of approximately \$226,000,000 at December 31, 1995. Interest rates on fixed rate mortgages payable range from 7.0% to 13.0% with a weighted average rate of 8.80% at December 31, 1995.

(b.) Variable rate mortgages payable includes three loans at December 31, 1995. The loans were secured by real estate assets with an aggregate undepreciated cost of approximately \$75,000,000 at December 31, 1995. Interest rates on variable rate mortgages payable range from 1.35% to 1.50% above the 30-day London Interbank Offered Rate ("LIBOR"). At December 31, 1995, 30-day LIBOR was 5.9%. The Company has entered into two interest rate swap agreements with financial institutions to effectively fix the interest rates on the variable rate mortgages payable at a rate of 7.24%. At December 31, 1995, the notional amounts of the interest rate swaps equaled the outstanding balance of the mortgages payable. The swaps expire in June 1999 and July 2000 upon the maturity of the respective mortgage agreements. The cost basis of the interest rate swaps was \$670,000 at December 31, 1995.

(c.) The Company has a revolving credit facility in the amount of \$80,000,000 from two participating banks. The credit facility bears interest at 1.50% above 30-day LIBOR and matures on June 13, 1999. The terms of the credit facility require the Company to pay a commitment fee equal to .25% on the unused portion of the credit facility and include certain restrictive covenants which limit, among other things, dividend payments and additional indebtedness and which requires compliance with certain financial ratios and measurements. At December 31, 1995, the Company was in compliance with the terms of the credit facility. The credit facility is secured by real estate assets with an aggregate undepreciated cost of approximately \$133,000,000 at December 31, 1995. To limit increases in interest expense due to changes in 30-day LIBOR, the Company used \$6,170,000 of the proceeds from the Initial Public Offering to purchase a five-year, \$80,000,000 interest rate protection agreement. The interest rate protection agreement limits the Company's exposure to 30-day LIBOR of 5.5% (7.0% with the 1.50% spread). The initial premium paid to acquire the interest rate protection agreement is being amortized as an increase to interest expense over the five-year term of the agreement. Payments received from the counterparties under the interest rate protection agreements were \$385,000 in 1995 and \$25,000 in 1994 and were recorded in the contractual interest expense in the income statement. At December 31, 1995 the effective interest rate on the credit facility was 7%.

(d.) The aggregate maturities of the mortgages and notes payable are as follows (in thousands):

1996.....	\$ 4,137
1997.....	25,135
1998.....	7,301
1999.....	38,719
2000.....	39,084
Thereafter.....	68,360
	\$182,736

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

2. **MORTGAGES AND NOTES PAYABLE** -- Continued During 1995 and 1994, the total interest costs incurred on mortgages and notes payable was \$12,608,000 and \$2,499,000, respectively. Capitalized interest during 1995 and 1994 was \$507,000 and \$17,000, respectively.

3. **MANAGEMENT COMPENSATION PROGRAM** The Company has established an incentive compensation plan for executive officers of the Company. The plan provides for payment of a cash bonus to participating officers and employees if certain Company performance objectives are achieved. The amount of the bonus to participating officers and employees is based on a formula determined for each employee by the Compensation Committee, but may not exceed 100% of base salary. All bonuses may be subject to adjustment to reflect individual performance as measured by specific qualitative criteria to be approved by the Compensation Committee. Bonuses are accrued in the year earned and included in accrued expenses in the Consolidated Balance Sheet. In addition, as an incentive to retain top management, the Company has established a deferred compensation plan which provides for phantom stock awards. Under the deferred compensation plan, phantom stock or stock appreciation rights equal in value to 25% of the yearly cash bonus may be set aside in an incentive pool, with payment after five years. If an employee leaves the Company for any reason (other than death, disability or normal retirement) prior to the end of the five-year period, all awards under the deferred compensation plan will be forfeited.

4. **401(k) SAVINGS PLAN** The Company has a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. The Company matches the first 6% of compensation deferred at the rate of 50% of employee contributions. During the year ended December 31, 1995, the Company contributed \$51,000 to the Plan. Administrative expenses are paid by the Company.

5. **RENTAL INCOME** The Company's real estate assets are leased to tenants under operating leases that expire over the next ten years. The minimum rental amounts under the leases are generally either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases also require that the tenants reimburse the Company for increases in certain costs above their base year costs. Expected future minimum rents to be received over the next five years and thereafter from tenants for leases in effect at December 31, 1995, are as follows (in thousands):

1996.....	\$ 81,765
1997.....	66,760
1998.....	50,863
1999.....	39,594
2000.....	27,134
Thereafter.....	28,685
	\$294,801

6. **RELATED PARTY TRANSACTIONS** The Company makes advances to Highwoods Services, Inc. and Forsyth Properties Services, Inc. for working capital purposes. These advances bear interest at a rate of 7% per annum and totaled \$1,274,000 at December 31, 1995, and \$620,000 at December 31, 1994. The Company recorded interest income from

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

6. RELATED PARTY TRANSACTIONS -- Continued these advances of \$43,000 and \$15,000 for the year ended December 31, 1995, and for the period from June 14, 1994, to December 31, 1994. During the year ended December 31, 1995, the Company acquired two properties encompassing 99,334 square feet at an aggregate purchase price of \$6,850,000 from partnerships in which certain officers and directors owned a majority interest. These transactions were accounted for using the purchase method of accounting and their operating results are included in the Statements of Income from their acquisition dates.

7. DISTRIBUTIONS Distributions paid were \$1.75 per share for the year ended December 31, 1995, and \$.50 per share for the period from June 14, 1994, to December 31, 1994. For federal income tax purposes, the following table summarizes the estimated taxability of distributions paid:

	1995	1994
Per Share:		
Ordinary income.....	\$1.63	\$.50
Capital gains.....	--	--
Return of capital.....	.12	--
Total.....	\$1.75	\$.50

The Company's tax return for the year ended December 31, 1995, has not been filed, and the taxability information for 1995 is based upon the best available data. The Company's tax returns have not been examined by the Internal Revenue Service, and therefore the taxability of distributions is subject to change.

On January 30, 1996, the Board of Directors declared a distribution of \$.45 per share payable on February 21, 1996, to shareholders of record on February 9, 1996.

**8. COMMITMENTS AND CONTINGENCIES**

**Lease:**

Two of the properties located in Parkway Plaza development are subject to a land lease expiring December 31, 2082. Rental payments are to be adjusted yearly based on the consumer price index. The Company has the option to purchase the leased land during the lease term at the greater of 85% of appraised value or \$35,000 per acre. The obligation for future minimum lease payments is as follows (in thousands):

1996.....	\$ 97
1997.....	97
1998.....	97
1999.....	97
2000.....	97
Thereafter.....	7,981
	\$8,466

**Litigation:**

The Company is a party to a variety of legal proceedings arising in the ordinary course of its business. These matters are generally covered by insurance. All of these matters, taken together, are not expected to

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

8. COMMITMENTS AND CONTINGENCIES -- Continued have a material adverse effect on the accompanying consolidated financial statements notwithstanding possible insurance recovery.

**Stock Options:**

As of December 31, 1995, 1,400,000 shares of the Company's authorized Common Stock had been reserved for issuance upon the exercise of options granted under the Amended and Restated 1994 Stock Option Plan. For the Company's executive and senior officers and non-independent directors, the options will vest in four equal installments on the second, third, fourth, and fifth anniversaries of the date of grant. For other employees and independent directors, the options will vest in four equal installments on the first, second, third and fourth anniversaries of the date of grant.

Options outstanding for the year ended December 31, 1995, and for the period from June 14, 1994 to December 31, 1994, are as follows:

	Number of Shares	Option Price Per Share
Granted at Initial Public Offering.....	326,000	\$21.00
Granted.....	--	--
Canceled.....	--	--
Shares under Option at December 31, 1994.....	326,000	\$21.00
Granted.....	400,000	\$20.75-\$25.00
Exercised.....	(8,000)	\$21.00
Canceled.....	(22,500)	\$21.00
Shares under Option at December 31, 1995.....	695,500	\$20.75-\$25.00
Exercisable at December 31, 1995.....	48,000	\$21.00
Available for Grant at December 31, 1995.....	704,500	

**Warrants:**

In connection with the Forsyth Transaction, the Company issued warrants to certain officers and directors of the Company to purchase 100,000 shares of the Company's Common Stock at \$21 per share.

**Contracts:**

The Company has entered into construction contracts totaling \$39,173,000 at December 31, 1995. The amounts remaining on these contracts as of December 31, 1995, totaled \$26,548,000.

The Company has entered into a contract under which it is committed to acquire 64 acres of land over a five-year period for an aggregate purchase price of approximately \$10,172,000. The seller has the option to elect to receive the purchase price in either cash or Units valued at \$26.67.

The Company has also entered into a contract under which it is committed to acquire 18 acres of land on or before August 1, 1998, for an aggregate purchase price of approximately \$2,032,000.

**Environmental Matters:**

All of the Company's properties, except for Burnt Poplar, have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying consolidated financial statements.



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

9. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS The following disclosures of estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The carrying amounts and estimated fair value of the Company's financial instruments at December 31, 1995, were as follows (in thousands):

	Carrying Amount	Fair Value
Cash and cash equivalents.....	\$ 6,838	\$ 6,838
Accounts and notes receivable.....	\$ 7,612	\$ 7,612
Mortgages and notes payable.....	\$182,735	\$186,709
Interest rate swap agreements.....	\$ 670	\$ (464)
Interest rate cap.....	\$ 4,267	\$ 1,311

The fair values for the Company's fixed rate mortgages and notes payable were estimated using discounted cash flow analysis, based on the Company's estimated incremental borrowing rate at December 31, 1995, for similar types of borrowing arrangements. The carrying amounts of the Company's variable rate borrowings approximate fair value.

The fair values of the Company's interest rate swap and interest rate cap agreements represent the estimated amount the Company would receive or pay to terminate or replace the financial instruments at current market rates.

Disclosures about the fair value of financial instruments are based on relevant information available to the Company at December 31, 1995. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented.

10. MERGERS AND ACQUISITIONS Through mergers and acquisitions during 1995, the Company increased its portfolio of office and industrial space by 6,357,000 square feet at an aggregate cost of \$369,900,000. Additionally, during 1995 the Company completed its second and third public offerings of common stock. These transactions were accounted for using the purchase method of accounting and their operating results are included in the Consolidated Statements of Operations from their acquisition dates. During 1994, the Company completed its Initial Public Offering, the Formation Transactions and acquired 207,000 square feet of office and industrial space at an aggregate cost of \$15,000,000. Unaudited pro forma results of operations for the years ended December 31, 1995 and 1994 are set forth below. For 1995, such pro forma results assume (i) the acquisition of 5,727,706 square feet of office and industrial space at a total cost of \$354,200,000 and (ii) the second and third public offerings occurred at the beginning of the year. For 1994, such pro forma results assume (i) the 1994 acquisition of 5,727,706 square feet of office and industrial space at a total cost of \$354,200,000, and (ii) the initial, second and third offerings and the Formation Transactions occurred at the beginning of the year. The proceeds from the second and third offering were used to reduce outstanding indebtedness for working capital purposes. Pro forma interest expense was calculated based upon the indebtedness outstanding after debt repayment and using the effective rate on such indebtedness. In 1994 and 1995, Operating Partnership Units totaling 200,000 and 2,677,748, respectively were issued in connection with various mergers and acquisitions. These Units were recorded at their market value upon the closing date of the transaction.

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

**10. MERGERS AND ACQUISITIONS -- Continued**

	Pro Forma Year Ended December 31, 1995 (in thousands, except	Pro Forma Year Ended December 31, 1994 per share amounts)
Revenues.....	\$ 90,592	\$ 83,541
Net Income.....	\$ 29,764	\$ 24,168
Net Income per Share.....	\$ 1.54	\$ 1.25

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

**11. SUBSEQUENT EVENTS**

**Credit Facility** On March 26, 1996, the Operating Partnership closed on a \$140,000,000 unsecured credit facility (the "New Credit Facility") which replaces the existing \$80 million line. The balance outstanding at March 31, 1996 is \$21,500,000. The New Credit Facility is with three commercial banks and has an initial interest rate of LIBOR +1.50% which will adjust based on the Operating Partnership's senior unsecured credit rating to a range of LIBOR +1.00% to LIBOR

+1.75%. The Company will continue to utilize the \$80,000,000 interest rate protection agreement to limit its exposure to increases in 30-day LIBOR. **Nashville Transaction**

On April 1, 1996, the Company and the Operating Partnership completed a merger with Eakin & Smith and its affiliates ("Eakin & Smith") combining their property portfolios, management teams and business operations. The merger will be accounted for using the purchase method of accounting. Through the combination, the Company succeeded to the ownership of seven suburban office buildings totaling 848,000 square feet, a 103,000-square-foot suburban office development project, 18 acres of development land and Eakin & Smith's brokerage and property management operations. All the properties and development land are located in Nashville, Tennessee. At March 31, 1996, the properties acquired in the transaction were 97% leased.

The aggregate purchase price, assuming the completion of the in-process development project, was approximately \$98.5 million payable through the issuance of 537,138 limited partnership units of the Operating Partnership and 489,421 shares of Common Stock, the assumption of \$37 million of indebtedness (with a weighted average fixed rate of 8.0%), and cash payments of approximately \$33 million. The aggregate purchase price excludes deferred payments of up to 54,056 shares of Common Stock, which are attributable to Eakin & Smith's brokerage and property management operation. A total payment of 13,514 shares of Common Stock will be paid to the three principals of Eakin & Smith, Inc. for each of the first four 12-month periods following the combination in which third-party service revenue attributable to the Eakin & Smith brokerage and property management operations exceeds \$2,000,000.

As part of the combination, the three principals of Eakin & Smith, Inc. received options to purchase 105,000 shares of common stock at \$27.50 per share. Such options vest in four equal annual installments beginning with the second anniversary of the date of grant. Such principals also received warrants to purchase 150,000 shares of Common Stock for \$28.00 per share. Pending Acquisition of Crocker Realty Trust, Inc. On April 29, 1996, the Company and the Operating Partnership entered into an Agreement and Plan of Merger (the "Merger Agreement") with Crocker Realty Trust, Inc. ("Crocker"). Under the terms of the Merger Agreement, Cedar Acquisition Corporation ("Cedar"), a newly formed subsidiary of the Company,

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

11. SUBSEQUENT EVENTS -- Continued will merge into Crocker with the Company becoming the sole shareholder of Crocker. The Company intends to contribute the shares of common stock of Crocker to the Operating Partnership in exchange for limited partnership interests therein. As a result, Crocker would become a subsidiary of the Operating Partnership. As a result of the Merger, the Operating Partnership will acquire 58 suburban office properties and 12 service center properties (the "Crocker Properties") located in 15 Southeastern markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama. The Crocker Properties encompass 5.7 million rentable square feet and, at March 31, 1996, were 95% leased. Under the terms of the Merger Agreement, the Company will acquire all of the outstanding capital stock of Crocker in exchange for a cash payment of \$11.02 per share, subject to certain adjustments. Based on Crocker's 26,981,087 shares of outstanding capital stock at May 31, 1996, the purchase price will total approximately \$297 million. In addition, the Company will cash out certain existing options and warrants to purchase Crocker common stock for an estimated \$4.2 million and assume approximately \$240 million of Crocker's currently outstanding indebtedness, having a weighted average interest rate of 8.6%. In connection with the Merger, the Company has also entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with AP CRTI Holdings, L. P. (an affiliate of Apollo Real Estate Advisors), AEW Partners, L.P. (an investment partnership advised by Aldrich Eastman Waltch), and Crocker's three senior executives (Thomas J. Crocker, Richard S. Ackerman and Robert E. Onisko), who together own approximately 83% of Crocker's outstanding common stock (collectively, the "Crocker Selling Shareholders"), which obligates such shareholders to sell their shares to the Company at a cash price of \$11.02, subject to the same adjustments as required under the Merger Agreement. The approximately \$247 million purchase price of such shares is part of the total approximately \$297 million purchase price for all of Crocker's outstanding shares. The Merger Agreement and the Stock Purchase Agreement may be terminated by the respective parties only in certain limited circumstances. In addition, under the terms of the Merger Agreement, certain specified assets and liabilities of Crocker will not be acquired by the Company. In connection with the Merger, the Company obtained a commitment from NationsBank and First Union National Bank of North Carolina for a \$250 million revolving line of credit (the "Revolving Loan"). The Revolving Loan will replace the Credit Facility and will be used together with the proceeds from the Offering to fund the Merger. The Revolving Loan will be unsecured for the first nine months and will bear interest at a rate of LIBOR plus 150 basis points. After the initial nine-month period, the Revolving Loan will either convert to a secured loan with a maturity date two years from its closing date or to an unsecured loan maturing on July 31, 1999. The Revolving Loan will remain unsecured if the Company generates at least \$300 million of net proceeds from equity offerings (including the proceeds from this Offering) during the initial nine-month period and meets certain covenants, including covenants relating to debt ratios, tangible net worth and interest coverage. If the Revolving Loan remains unsecured after the initial nine-month period, it would have an interest rate that ranged from LIBOR plus 100 basis points to LIBOR plus 175 basis points based on the Company's senior unsecured credit rating. If the loan converts to a secured facility, the Company will be required to pledge assets at least equal in value to 60% of the outstanding amount of the Revolving Loan and the interest rate will equal LIBOR plus 175 basis points.

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

**12. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):**

Selected quarterly financial data for the year ended December 31, 1995, and for the period from June 14, 1994, to December 31, 1994, is as follows (in thousands except per share amounts):

	For the period from June 14, 1994 to December 31, 1994*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues.....	\$ --	\$ 1,482	\$ 8,810	\$ 9,150	\$19,442
Income before minority interest and extraordinary item.....	--	534	3,652	3,509	7,695
Minority interest.....	--	(56)	(384)	(368)	(808)
Extraordinary item.....	--	(1,273)	--	--	(1,273)
Net (loss) income.....	\$ --	\$ (795)	\$ 3,268	\$ 3,141	\$ 5,614
Per Share:					
Income before extraordinary item.....	\$ --	\$ 0.06	\$ 0.36	\$ 0.35	\$ 0.77
Net (loss) income.....	\$ --	\$ (0.09)	\$ 0.36	\$ 0.35	\$ 0.63
	For the year ended December 31, 1995*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues.....	\$12,846	\$ 17,518	\$20,560	\$ 22,598	\$73,522
Income before minority interest and extraordinary item.....	4,879	6,829	7,939	9,287	28,934
Minority interest.....	(800)	(1,270)	(1,381)	(1,486)	(4,937)
Extraordinary item.....	(875)	--	--	--	(875)
Net income.....	\$ 3,204	\$ 5,559	\$ 6,558	\$ 7,801	\$23,122
Per Share:					
Income before extraordinary item.....	\$ 0.36	\$ 0.39	\$ 0.39	\$ 0.40	\$ 1.55
Net income.....	\$ 0.29	\$ 0.39	\$ 0.39	\$ 0.40	\$ 1.49

\* The total of the four quarterly amounts for net income per share do not equal the total for the year due to the use of a weighted average to compute the average number of shares outstanding.

**HIGHWOODS PROPERTIES, INC.**  
**SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION**  
December 31, 1995  
(In thousands)

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period Building & Improvements			Total (11)	Accumulated Depreciation (12)
		Land	Building & Improvements		Land				
Highwoods Office Center									
Amica	(3)	\$ 289	\$ 1,544	\$ 42	\$ 289	\$ 1,586	\$ 1,875	\$ 61	
Arrowwood	--	955	3,406	212	955	3,618	4,573	139	
Aspen	(3)	560	2,104	56	560	2,160	2,720	91	
Birchwood	(3)	201	911	--	201	911	1,112	43	
Cedar East	(3)	563	2,498	58	563	2,556	3,119	106	
Cedar West	(3)	563	2,487	94	563	2,581	3,144	101	
Cottonwood	(3)	609	3,253	15	609	3,268	3,877	127	
Cypress	(3)	567	1,747	26	567	1,773	2,340	84	
Dogwood	2,633	766	2,790	--	766	2,790	3,556	108	
Hawthorn	(3)	904	3,782	--	904	3,782	4,686	1,487	
Highwoods Tower	(3)	203	16,948	--	203	16,948	17,151	2,035	
Holly	--	300	1,170	--	300	1,170	1,470	45	
Ironwood	(3)	319	1,276	99	319	1,375	1,694	82	
Kaiser	(3)	133	3,625	--	133	3,625	3,758	978	
Laurel	(3)	884	2,537	4	884	2,541	3,425	98	
Leatherwood	--	213	851	98	213	949	1,162	52	
Smoketree Tower	(3)	2,353	11,922	723	2,353	12,645	14,998	475	
Rexwoods Office Center									
2500 Blue Ridge	(3)	722	4,552	33	722	4,585	5,307	177	
Blue Ridge II	1,445	434	--	1,450	462	1,422	1,884	333	
Rexwoods Center	(2)	775	--	3,771	878	3,668	4,546	648	
Rexwoods II	(3)	355	--	1,822	362	1,815	2,177	100	
Rexwoods III	3,320	886	--	2,863	919	2,830	3,749	328	
Rexwoods IV	(3)	586	--	3,434	586	3,434	4,020	58	
Triangle Business Center									
Bldg. 2A	(2)	377	4,004	303	377	4,307	4,684	193	
Bldg. 2B	(2)	118	1,225	--	118	1,225	1,343	47	
Bldg. 3	(2)	409	5,349	300	409	5,649	6,058	290	
Bldg. 7	(2)	414	6,301	(72)	414	6,229	6,643	240	
Progress Center									
Cape Fear	--	131	--	1,895	131	1,895	2,026	928	
Catawba	--	125	--	1,650	125	1,650	1,775	912	
CompuChem	--	269	--	6,598	289	6,578	6,867	1,726	
North Park									
4800 North Park	10,847	2,678	17,673	109	2,678	17,782	20,460	689	
4900 North Park	1,567	770	1,989	11	770	2,000	2,770	77	
5000 North Park	(3)	1,010	4,697	560	1,010	5,257	6,267	203	
Creekstone Park									
Creekstone Crossing	--	728	3,891	16	728	3,907	4,635	61	
Riverbirch	(3)	448	--	4,137	469	4,116	4,585	813	
Willow Oak	--	458	4,685	343	458	5,028	5,486	21	
Research Commons									
EPA Annex/Administration	(5)	1,609	10,920	51	1,609	10,971	12,580	390	
4501 Bldg.	(5)	748	4,448	653	748	5,101	5,849	184	
4401 Bldg.	(5)	1,822	8,929	3,575	1,822	12,504	14,326	554	
4301 Bldg.	(5)	1,094	7,425	--	1,094	7,425	8,519	132	
4201 Bldg.	(5)	1,466	7,715	2,305	1,466	10,020	11,486	417	
Hock Portfolio									
Fairfield I	--	805	3,227	21	805	3,248	4,053	37	

Description	Date of Construction	Date Acquired
Highwoods Office Center		
Amica	1983	1994
Arrowwood	1979	1994
Aspen	1980	1994
Birchwood	1983	1994
Cedar East	1981	1994
Cedar West	1981	1994
Cottonwood	1983	1994
Cypress	1980	1994
Dogwood	1983	1994
Hawthorn	1987	1994
Highwoods Tower	1991	1994
Holly	1984	1994
Ironwood	1978	1994
Kaiser	1988	1994
Laurel	1982	1994
Leatherwood	1979	1994
Smoketree Tower	1984	1994
Rexwoods Office Center		
2500 Blue Ridge	1982	1994
Blue Ridge II	1988	1994
Rexwoods Center	1990	1994
Rexwoods II	1993	1994
Rexwoods III	1992	1994
Rexwoods IV	1994	1994
Triangle Business Center		
Bldg. 2A	1984	1994
Bldg. 2B	1984	1994

Bldg. 3	1988	1994
Bldg. 7	1988	1994
Progress Center		
Cape Fear	1980	1994
Catawba	1980	1994
CompuChem	1980	1994
North Park		
4800 North Park	1985	1994
4900 North Park	1984	1994
5000 North Park	1980	1994
Creekstone Park		
Creekstone Crossing	1990	1995
Riverbirch	1987	1994
Willow Oak	1995	1995
Research Commons		
EPA Annex/Administration	1966	1995
4501 Bldg.	1985	1995
4401 Bldg.	1987	1995
4301 Bldg.	1989	1995
4201 Bldg.	1991	1995
Hock Portfolio		
Fairfield I	1987	1995

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period Building & Improvements			Total (11)	Accumulated Depreciation (12)
		Land	Building & Improvements		Land	Improvements			
Fairfield II	--	910	3,647	19	910	3,666		4,576	42
Qualex	--	879	3,522	--	879	3,522		4,401	40
4101 Roxboro	--	1,059	4,243	10	1,059	4,253		5,312	49
4020 Roxboro	--	675	2,708	8	675	2,716		3,391	31
Other Research Triangle Properties									
Colony Corporate Center	(3)	613	3,296	62	613	3,358		3,971	134
Concourse	(3)	986	12,069	185	986	12,254		13,240	477
Cotton Building	--	460	1,844	--	460	1,844		2,304	2
Expressway One Warehouse	1,650	242	--	1,836	246	1,832		2,078	248
Holiday Inn	2,464	867	2,748	75	867	2,823		3,690	106
Lake Plaza East	(3)	856	4,893	126	856	5,019		5,875	217
Phoenix	--	394	2,019	11	394	2,030		2,424	53
Six Forks Center I	--	666	2,688	--	666	2,688		3,354	8
Six Forks Center II	--	1,086	4,370	8	1,086	4,378		5,464	14
Six Forks Center III	--	862	4,444	91	862	4,535		5,397	144
South Square I	(2)	606	3,785	152	606	3,937		4,543	157
South Square II	(3)	525	4,742	106	525	4,848		5,373	187
Airpark East									
Highland Industries	(6)	175	699	--	175	699		874	15
Service Center 1	(6)	275	1,099	46	275	1,145		1,420	24
Service Center 2	(6)	222	889	--	222	889		1,111	19
Service Center 3	(6)	304	1,214	--	304	1,214		1,518	27
Service Center 4	(6)	224	898	--	224	898		1,122	20
Copier Consultants	(6)	252	1,008	--	252	1,008		1,260	22
Service Court	(6)	194	774	1	194	775		969	17
Bldg. 01	(6)	377	1,510	8	377	1,518		1,895	34
Bldg. 02	(6)	461	1,842	1	461	1,843		2,304	40
Bldg. 03	(6)	321	1,283	41	321	1,324		1,645	33
Bldg. A	(6)	541	2,913	60	541	2,973		3,514	66
Bldg. B	(6)	779	3,200	43	779	3,243		4,022	73
Bldg. C	(6)	2,384	9,535	35	2,384	9,570		11,954	214
Sears Cenfact	4,561	861	3,446	6	861	3,452		4,313	75
Warehouse 1	(6)	384	1,535	--	384	1,535		1,919	34
Warehouse 2	(6)	372	1,488	--	372	1,488		1,860	33
Warehouse 3	(6)	370	1,480	2	370	1,482		1,852	32
Warehouse 4	(6)	657	2,628	1	657	2,629		3,286	57
Airpark North									
DC-1	(6)	723	2,891	15	723	2,906		3,629	64
DC-2	(6)	1,094	4,375	42	1,094	4,417		5,511	97
DC-3	(6)	378	1,511	--	378	1,511		1,889	33
DC-4	(6)	377	1,508	1	377	1,509		1,886	33
Airpark West									
Airpark I	(2)	954	3,817	5	954	3,822		4,776	84
Airpark II	(2)	887	3,536	7	887	3,543		4,430	79
Airpark IV	(2)	226	903	37	226	940		1,166	22
Airpark V	(2)	242	966	6	242	972		1,214	22
Airpark VI	(2)	326	1,308	61	326	1,369		1,695	34
West Point Business Park									
BMF Warehouse	(7)	795	3,181	--	795	3,181		3,976	70
WP-11	(7)	393	1,570	22	393	1,592		1,985	35
WP-12	(7)	382	1,531	22	382	1,553		1,935	34
WP-13	(7)	297	1,192	22	297	1,214		1,511	27
WP-3 & 4	(7)	120	480	--	120	480		600	11
WP-5	--	178	590	136	178	726		904	5
Fairchild Bldg.	(7)	640	2,577	--	640	2,577		3,217	56
LUWA Bahnson Bldg.	(7)	346	1,384	1	346	1,385		1,731	30

Description	Date of Construction	Date Acquired
Fairfield II	1989	1995
Qualex	1985	1995
4101 Roxboro	1984	1995
4020 Roxboro	1989	1995
Other Research Triangle Properties		
Colony Corporate Center	1985	1994
Concourse	1986	1994
Cotton Building	1972	1995
Expressway One Warehouse	1990	1994
Holiday Inn	1984	1994
Lake Plaza East	1984	1994
Phoenix	1990	1994
Six Forks Center I	1982	1995
Six Forks Center II	1983	1995
Six Forks Center III	1987	1994
South Square I	1988	1994
South Square II	1989	1994
Airpark East		
Highland Industries	1990	1995
Service Center 1	1985	1995
Service Center 2	1985	1995
Service Center 3	1985	1995
Service Center 4	1985	1995
Copier Consultants	1990	1995
Service Court	1990	1995
Bldg. 01	1990	1995
Bldg. 02	1986	1995
Bldg. 03	1986	1995

Bldg. A	1986	1995
Bldg. B	1988	1995
Bldg. C	1990	1995
Sears Cenfact	1989	1995
Warehouse 1	1985	1995
Warehouse 2	1985	1995
Warehouse 3	1986	1995
Warehouse 4	1988	1995
Airpark North		
DC-1	1986	1995
DC-2	1987	1995
DC-3	1988	1995
DC-4	1988	1995
Airpark West		
Airpark I	1984	1995
Airpark II	1985	1995
Airpark IV	1985	1995
Airpark V	1985	1995
Airpark VI	1985	1995
West Point Business Park		
BMF Warehouse	1986	1995
WP-11	1988	1995
WP-12	1988	1995
WP-13	1988	1995
WP-3 & 4	1988	1995
WP-5	1995	1995
Fairchild Bldg.	1990	1995
LUWA Bahnson Bldg.	1990	1995



Description	Encumbrance	Initial Cost		Cost	Gross Amount at Which			Total	Accumulated
		Land	Building & Improvements	Capitalized Subsequent to Acquisition	Carried at Close of Period	Building & Improvements	(11)		
University Commercial Center									
W-1	--	203	812	--	203	812	1,015	18	
W-2	--	196	786	--	196	786	982	17	
SR-1	--	276	1,155	6	276	1,161	1,437	26	
SR-2 01/02	--	215	859	90	215	949	1,164	26	
SR-3	--	167	668	--	167	668	835	15	
Bldg. 01/02	--	26	102	13	26	115	141	3	
Bldg. 03	--	429	1,771	3	429	1,774	2,203	39	
Bldg. 04	--	514	2,058	6	514	2,064	2,578	46	
Ivy Distribution Center	--	452	1,812	67	452	1,879	2,331	42	
Knollwood Office Center									
370 Knollwood	(6)	1,819	7,451	444	1,819	7,895	9,714	192	
380 Knollwood	(6)	2,977	11,912	163	2,977	12,075	15,052	272	
Stoneleigh Business Park									
7327 W. Friendly Ave.	--	60	441	6	60	447	507	5	
7339 W. Friendly Ave.	--	63	465	8	63	473	536	6	
7341 W. Friendly Ave.	(1)	113	831	11	113	842	955	10	
7343 W. Friendly Ave.	(1)	72	531	7	72	538	610	6	
7345 W. Friendly Ave.	(1)	66	485	6	66	491	557	6	
7347 W. Friendly Ave.	(1)	97	709	9	97	718	815	8	
7349 W. Friendly Ave.	(1)	53	388	5	53	393	446	4	
7351 W. Friendly Ave.	(1)	106	778	11	106	789	895	9	
7353 W. Friendly Ave.	(1)	123	901	12	123	913	1,036	10	
7355 W. Friendly Ave.	(1)	72	525	7	72	532	604	6	
Spring Garden Plaza									
4000 Spring Garden St.	--	127	933	7	127	940	1,067	11	
4002 Spring Garden St.	--	39	290	2	39	292	331	3	
4004 Spring Garden St.	--	139	1,019	8	139	1,027	1,166	12	
Pomona Center-Phase I									
7 Dundas Circle	(1)	75	552	--	75	552	627	6	
8 Dundas Circle	(1)	84	617	--	84	617	701	7	
9 Dundas Circle	(1)	51	373	--	51	373	424	4	
Pomona Center-Phase II									
302 Pomona Dr.	(1)	84	617	--	84	617	701	7	
304 Pomona Dr.	(1)	22	163	--	22	163	185	2	
306 Pomona Dr.	(1)	50	368	--	50	368	418	4	
308 Pomona Dr.	(1)	72	531	--	72	531	603	6	
5 Dundas Circle	(1)	72	531	--	72	531	603	6	
Westgate on Wendover-Phase I									
305 South Westgate Dr.	(4)	30	220	1	30	221	251	3	
307 South Westgate Dr.	(4)	66	485	4	66	489	555	6	
309 South Westgate Dr.	(4)	68	496	3	68	499	567	6	
311 South Westgate Dr.	(4)	75	551	4	75	555	630	6	
315 South Westgate Dr.	(4)	54	396	2	54	398	452	5	
317 South Westgate Dr.	(4)	81	597	3	81	600	681	7	
319 South Westgate Dr.	(4)	54	396	2	54	398	452	5	
Westgate on Wendover-Phase II									
206 South Westgate Dr.	(1)	91	664	4	91	668	759	8	
207 South Westgate Dr.	(1)	138	1,012	6	138	1,018	1,156	12	
300 South Westgate Dr.	(1)	68	496	3	68	499	567	6	
4600 Dundas Circle	(1)	62	456	19	62	475	537	5	
4602 Dundas Circle	(1)	68	498	--	68	498	566	6	
Radar Road									
500 Radar Rd.	(1)	202	1,484	--	202	1,484	1,686	17	
502 Radar Rd.	(1)	39	285	--	39	285	324	3	

Description	Date of Construction	Date Acquired
University Commercial Center		
W-1	1983	1995
W-2	1983	1995
SR-1	1983	1995
SR-2 01/02	1983	1995
SR-3	1984	1995
Bldg. 01/02	1983	1995
Bldg. 03	1985	1995
Bldg. 04	1986	1995
	1930-	
Ivy Distribution Center	1980	1995
Knollwood Office Center		
370 Knollwood	1994	1995
380 Knollwood	1990	1995
Stoneleigh Business Park		
7327 W. Friendly Ave.	1987	1995
7339 W. Friendly Ave.	1989	1995
7341 W. Friendly Ave.	1988	1995
7343 W. Friendly Ave.	1988	1995
7345 W. Friendly Ave.	1988	1995
7347 W. Friendly Ave.	1988	1995
7349 W. Friendly Ave.	1988	1995
7351 W. Friendly Ave.	1988	1995
7353 W. Friendly Ave.	1988	1995
7355 W. Friendly Ave.	1988	1995
Spring Garden Plaza		
4000 Spring Garden St.	1983	1995

4002 Spring Garden St.	1983	1995
4004 Spring Garden St.	1983	1995
Pomona Center-Phase I		
7 Dundas Circle	1986	1995
8 Dundas Circle	1986	1995
9 Dundas Circle	1986	1995
Pomona Center-Phase II		
302 Pomona Dr.	1987	1995
304 Pomona Dr.	1987	1995
306 Pomona Dr.	1987	1995
308 Pomona Dr.	1987	1995
5 Dundas Circle	1987	1995
Westgate on Wendover-Phase I		
305 South Westgate Dr.	1985	1995
307 South Westgate Dr.	1985	1995
309 South Westgate Dr.	1985	1995
311 South Westgate Dr.	1985	1995
315 South Westgate Dr.	1985	1995
317 South Westgate Dr.	1985	1995
319 South Westgate Dr.	1985	1995
Westgate on Wendover-Phase II		
206 South Westgate Dr.	1986	1995
207 South Westgate Dr.	1986	1995
300 South Westgate Dr.	1986	1995
4600 Dundas Circle	1985	1995
4602 Dundas Circle	1985	1995
Radar Road		
500 Radar Rd.	1981	1995
502 Radar Rd.	1986	1995

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period		Total (11)	Accumulated Depreciation (12)
		Land	Building & Improvements		Land	Building & Improvements		
504 Radar Rd.	(1)	39	285	--	39	285	324	3
506 Radar Rd.	(1)	39	285	--	39	285	324	3
Holden/85 Business Park								
2616 Phoenix Dr.	(1)	135	990	--	135	990	1,125	11
2606 Phoenix Dr. -- 100	(1)	63	466	--	63	466	529	5
2606 Phoenix Dr. -- 200	(1)	63	466	--	63	466	529	5
2606 Phoenix Dr. -- 300	(1)	31	229	--	31	229	260	3
2606 Phoenix Dr. -- 400	(1)	52	382	2	52	384	436	5
2606 Phoenix Dr. -- 500	(1)	64	471	5	64	476	540	6
2606 Phoenix Dr. -- 600	(1)	78	575	--	78	575	653	7
Industrial Village								
7906 Industrial Village Rd.	(1)	62	455	5	62	460	522	5
7908 Industrial Village Rd.	(1)	62	455	5	62	460	522	5
7910 Industrial Village Rd.	(1)	62	455	5	62	460	522	5
Other Piedmont Triad Properties								
6348 Burnt Poplar	--	721	2,883	7	721	2,890	3,611	63
6350 Burnt Poplar	--	339	1,365	5	339	1,370	1,709	30
Stratford	(3)	2,777	11,459	--	2,777	11,459	14,236	252
Chesapeake	(2)	1,236	4,944	--	1,236	4,944	6,180	108
3288 Robinhood	1,172	290	1,159	24	290	1,183	1,473	28
Steele Creek Park								
Bldg. A	(2)	499	1,998	7	499	2,005	2,504	44
Bldg. B	(2)	110	441	--	110	441	551	10
Bldg. E	(2)	188	824	85	188	909	1,097	16
Bldg. G-1	(2)	196	783	20	196	803	999	18
Bldg. H	(2)	169	677	72	169	749	918	30
Bldg. K	(2)	148	592	--	148	592	740	13
Bldg. N	(2)	199	722	--	199	722	921	17
Highwoods/Forsyth Business Park								
4101 Stuart Andrew Blvd.	(1)	70	510	2	70	512	582	6
4105 Stuart Andrew Blvd.	(1)	26	189	1	26	190	216	2
4109 Stuart Andrew Blvd.	(1)	87	636	4	87	640	727	7
4201 Stuart Andrew Blvd.	(1)	110	809	4	110	813	923	9
4205 Stuart Andrew Blvd.	(1)	134	979	8	134	987	1,121	11
4209 Stuart Andrew Blvd.	(1)	91	665	3	91	668	759	8
4215 Stuart Andrew Blvd.	(1)	133	978	9	133	987	1,120	11
4301 Stuart Andrew Blvd.	(1)	232	1,702	11	232	1,713	1,945	20
4321 Stuart Andrew Blvd.	(1)	73	534	3	73	537	610	6
Parkway Plaza								
Building 1	--	1,110	4,741	--	1,110	4,741	5,851	4
Building 2	--	1,694	6,777	--	1,694	6,777	8,471	5
Building 3	--	1,570	6,282	--	1,570	6,282	7,852	5
Building 7	--	--	4,648	--	--	4,648	4,648	4
Building 8	--	--	4,698	--	--	4,698	4,698	4
Building 9	4,865	--	6,008	--	--	6,008	6,008	5
Other Charlotte Properties								
First Citizens	(3)	647	5,528	30	647	5,558	6,205	218

Description	Date of Construction	Date Acquired
504 Radar Rd.	1986	1995
506 Radar Rd.	1986	1995
Holden/85 Business Park		
2616 Phoenix Dr.	1985	1995
2606 Phoenix Dr. -- 100	1989	1995
2606 Phoenix Dr. -- 200	1989	1995
2606 Phoenix Dr. -- 300	1989	1995
2606 Phoenix Dr. -- 400	1989	1995
2606 Phoenix Dr. -- 500	1989	1995
2606 Phoenix Dr. -- 600	1989	1995
Industrial Village		
7906 Industrial Village Rd.	1985	1995
7908 Industrial Village Rd.	1985	1995
7910 Industrial Village Rd.	1985	1995
Other Piedmont Triad Properties		
6348 Burnt Poplar	1990	1995
6350 Burnt Poplar	1992	1995
Stratford	1991	1995
Chesapeake	1993	1995
3288 Robinhood	1989	1995
Steele Creek Park		
Bldg. A	1989	1995
Bldg. B	1985	1995
Bldg. E	1985	1995
Bldg. G-1	1989	1995
Bldg. H	1987	1995
Bldg. K	1985	1995
Bldg. N	1989	1995
Highwoods/Forsyth Business Park		

4101 Stuart Andrew Blvd.	1984	1995
4105 Stuart Andrew Blvd.	1984	1995
4109 Stuart Andrew Blvd.	1984	1995
4201 Stuart Andrew Blvd.	1982	1995
4205 Stuart Andrew Blvd.	1982	1995
4209 Stuart Andrew Blvd.	1982	1995
4215 Stuart Andrew Blvd.	1982	1995
4301 Stuart Andrew Blvd.	1982	1995
4321 Stuart Andrew Blvd.	1982	1995
Parkway Plaza		
Building 1	1982	1995
Building 2	1983	1995
Building 3	1984	1995
Building 7	1985	1995
Building 8	1986	1995
Building 9	1984	1995
Other Charlotte Properties		
First Citizens	1989	1994

Description	Encumbrance	Initial Cost		Cost	Gross Amount at Which		Total	Accumulated
		Land	Building & Improvements	Capitalized Subsequent to Acquisition	Carried at Close of Period	Building & Improvements		
Innsbrook Office Center							(11)	Depreciation (12)
Markel American	(8)	585	2,347	81	585	2,428	3,013	34
Proctor-Silex	(8)	1,086	4,344	--	1,086	4,344	5,430	50
Vantage Place I	--	235	940	1	235	941	1,176	7
Vantage Place II	--	203	811	2	203	813	1,016	6
Vantage Place III	--	218	873	2	218	875	1,093	6
Vantage Place IV	--	233	931	2	233	933	1,166	7
Vantage Point	4,493	1,089	4,354	51	1,089	4,405	5,494	32
Innsbrook Tech I	1,181	264	1,058	--	264	1,058	1,322	8
DEQ Technology Center	--	541	2,166	--	541	2,166	2,707	11
DEQ Office	--	1,324	5,305	--	1,324	5,305	6,629	28
Technology Park								
Virginia Center	--	1,438	5,858	--	1,438	5,858	7,296	157
Development Projects								
Global Software	--	465	--	58	465	58	523	--
MSA	--	717	--	9	717	9	726	--
Healthsource	--	1,294	--	1	1,294	1	1,295	--
Highwoods Health Club	--	142	555	--	142	555	697	--
Regency One	--	554	--	--	554	--	554	--
Development Land								
Capital Center	--	851	--	--	851	--	851	--
Creekstone Park	--	1,255	--	(453) (9)	802	--	802	--
Highwoods Office Center								
North	--	1,555	49	(450) 10)	1,105	49	1,154	10
Highwoods Office Center								
South	--	2,518	--	--	2,518	--	2,518	--
Research Commons	--	1,349	--	--	1,349	--	1,349	--
Airpark East	--	1,932	--	--	1,932	--	1,932	--
Airpark North	--	804	--	--	804	--	804	--
NationsFord Business								
Park	--	1,206	--	--	1,206	--	1,206	--
West Point Business Park	--	1,759	--	--	1,759	--	1,759	--
Airport Center Drive	1,600	1,600	--	--	1,600	--	1,600	--
	\$41,798	\$ 107,642	\$449,766	\$ 41,128	\$ 106,955	\$491,581	\$ 598,536	\$21,452
Description	Date of Construction	Date Acquired						
Innsbrook Office Center								
Markel American	1988	1995						
Proctor-Silex	1986	1995						
Vantage Place I	1987	1995						
Vantage Place II	1987	1995						
Vantage Place III	1988	1995						
Vantage Place IV	1988	1995						
Vantage Point	1990	1995						
Innsbrook Tech I	1991	1995						
DEQ Technology Center	1991	1995						
DEQ Office	1991	1995						
Technology Park								
Virginia Center	1985	1994						
Development Projects								
Global Software	N/A							
MSA	N/A	N/A						
Healthsource	N/A	N/A						
Highwoods Health Club	N/A	N/A						
Regency One	N/A	N/A						
Development Land								
Capital Center	N/A	1995						
Creekstone Park	N/A	1994						
Highwoods Office Center								
North	N/A	1994						
Highwoods Office Center								
South	N/A	1994						
Research Commons	N/A	1995						
Airpark East	N/A	1995						
Airpark North	N/A	1995						
NationsFord Business								
Park	N/A	1995						
West Point Business Park	N/A	1995						
Airport Center Drive	N/A	1995						
	N/A	N/A						

(1) These assets are pledged as collateral for a \$12,067,000 first mortgage loan.

(2) These assets are pledged as collateral for a \$31,834,000 first mortgage loan.

(3) These assets are pledged as collateral for an \$80,000,000 credit facility.

(4) These assets are pledged as collateral for a \$6,669,000 first mortgage loan.

(5) These assets are pledged as collateral for a \$24,481,000 first mortgage loan.

(6) These assets are pledged as collateral for a \$40,659,000 first mortgage loan.

(7) These assets are pledged as collateral for an \$8,733,000 first mortgage loan.

(8) These assets are pledged as collateral for a \$4,995,000 first mortgage loan.

(9) Reflects land transferred to the Willow Oak Property.

(10) Reflects land transferred to the Global Property.

(11) The aggregate cost for Federal Income Tax purposes was approximately \$509,000,000.

(12) Depreciation is computed using economic lives ranging from 5 to 40 years.



**HIGHWOODS PROPERTIES, INC.**  
**NOTE TO SCHEDULE III**  
(in thousands)

As of December 31, 1995 and 1994

A summary of activity for real estate and accumulated depreciation is as follows:

		December 31, 1995	1994
Real Estate:			
Balance at beginning of year.....	\$	218,699	\$ 61,656
Additions:			
Acquisitions and development.....		365,130	154,946
Improvements.....		16,806	2,097
Cost of real estate sold.....		(2,099)	--
Balance at close of year (a).....	\$	598,536	\$218,699
Accumulated Depreciation:			
Balance at beginning of year.....	\$	11,003	\$ 8,679
Depreciation expense.....		10,483	2,324
Real estate sold.....		(34)	--
Balance at close of year (b).....	\$	21,452	\$ 11,003

(a) Reconciliation of total cost to balance sheet caption at December 31, 1995 and 1994 (in thousands):

	1995	1994
Total per schedule III	\$598,536	\$218,699
Construction in progress exclusive of land of \$3,172 included in Schedule III	15,508	--
Furniture, fixtures and equipment	1,288	967
Total real estate assets at cost	\$615,332	\$219,666

(b) Reconciliation of total accumulated depreciation to balance sheet caption at December 31, 1995 and 1994 (in thousands):

	1995	1994
Total per schedule III	\$21,452	\$11,003
Accumulated depreciation -- furniture, fixtures and equipment	814	687
Total accumulated depreciation	\$22,266	\$11,690

## REPORT OF INDEPENDENT AUDITORS

### **BOARD OF DIRECTORS AND STOCKHOLDERS HIGHWOODS PROPERTIES, INC.**

We have audited the accompanying combined balance sheets of the Highwoods Group as of December 31, 1993 and 1992, and the related combined statements of operations, owners' deficit, and cash flows for the period from January 1, 1994 to June 13, 1994 and for each of the three years in the period ended December 31, 1993. We have also audited the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Highwoods Group's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Highwoods Group at December 31, 1993 and 1992, and the combined results of operations and cash flows for the period from January 1, 1994 to June 13, 1994 and for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information required to be set forth therein.

ERNST & YOUNG LLP

Raleigh, North Carolina

January 10, 1995



# HIGHWOODS GROUP COMBINED BALANCE SHEETS

	December 31,	
	1993	1992
Assets		
Rental properties, at cost:		
Land.....	\$ 9,488,616	\$ 8,602,272
Buildings and improvements.....	50,141,219	44,876,022
Equipment.....	924,782	791,357
	60,554,617	54,269,651
Less accumulated depreciation.....	(8,649,712)	(7,390,178)
Rental property, net.....	51,904,905	46,879,473
Cash and cash equivalents.....	865,647	2,363,204
Restricted cash.....	928,773	462,545
Rents and other receivables from tenants (net of allowance of \$20,000 in December 1993 and \$19,000 in December 1992).....	1,314,983	706,682
Accounts receivable from related parties.....	156,942	199,562
Accrued straight line rents receivable.....	1,624,535	1,357,433
Deferred offering costs and prepaids.....	180,604	25,549
Other assets:		
Deferred lease fees and loan costs.....	2,838,182	2,505,724
Less accumulated amortization.....	(1,136,059)	(812,279)
	1,702,123	1,693,445
Total assets.....	\$58,678,512	\$53,687,893
Liabilities and owners' deficit		
Mortgages and notes payable including \$159,362 to related parties at December 31, 1993 and \$262,552 at December 31, 1992.....	\$64,346,580	\$60,279,344
Accrued expenses and accounts payable.....	2,226,879	1,034,212
Accounts payable to related parties.....	81,833	197,747
Total liabilities.....	66,655,292	61,511,303
Owners' deficit.....	(7,976,780)	(7,823,410)
Commitments (Notes 3, 5 and 7).....		
Total liabilities and owners' deficit.....	\$58,678,512	\$53,687,893

See accompanying notes.

**HIGHWOODS GROUP**  
**COMBINED STATEMENTS OF OPERATIONS**

	January 1, 1994 to June 13, 1994	Year ended December 31, 1993	1992	1991
Revenue:				
Rental income.....	\$ 4,953,444	\$ 8,983,623	\$ 8,184,195	\$ 5,636,933
Leasing, Development and Construction Income.....	1,267,725	3,721,407	3,490,283	3,039,210
Other income.....	427,300	745,173	857,512	1,097,842
Total revenue.....	6,648,469	13,450,203	12,531,990	9,773,985
Expenses:				
Property operating expenses.....	2,246,830	4,398,186	4,197,621	3,123,351
Leasing, Development and Construction Expenses.....	349,677	1,849,778	1,388,629	1,343,955
Interest.....	2,472,609	5,184,781	5,058,973	3,907,894
Depreciation and amortization.....	834,622	1,583,314	1,431,455	1,134,657
Marketing, general and administrative.....	280,777	589,257	693,892	690,283
Total expenses.....	6,184,515	13,605,316	12,770,570	10,200,140
Net income (loss).....	\$ 463,954	\$ (155,113)	\$ (238,580)	\$ (426,155)

See accompanying notes.

# HIGHWOODS GROUP

## COMBINED STATEMENTS OF OWNERS' DEFICIT

	Owners' Deficit
Balance at January 1, 1991.....	\$(7,670,302)
Owners' distributions.....	(1,794,472)
Owners' contributions.....	706,209
Net loss for the year ended December 31, 1991.....	(426,155)
Balance at December 31, 1991.....	(9,184,720)
Owners' distributions.....	(1,437,427)
Owners' contributions.....	3,037,317
Net loss for the year ended December 31, 1992.....	(238,580)
Balance at December 31, 1992.....	(7,823,410)
Owners' distributions.....	(1,043,944)
Owners' contributions.....	1,045,687
Net loss for the year ended December 31, 1993.....	(155,113)
Balance at December 31, 1993.....	(7,976,780)
Owners' distributions.....	(1,759,220)
Net income for the period from January 1, 1994 to June 13, 1994.....	463,954
Balance at June 13, 1994.....	\$(9,272,046)

See accompanying notes.

# HIGHWOODS GROUP

## COMBINED STATEMENTS OF CASH FLOWS

	January 1, 1994 to June 13, 1994	Year ended December 31, 1993	1992	1991
Operating activities				
Net income (loss).....	\$ 463,954	\$ (155,113)	\$ (238,580)	\$ (426,155)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization.....	834,622	1,583,314	1,431,455	1,134,657
Changes in operating assets and liabilities:				
Rents and other receivables from tenants.....	1,100,324	(608,301)	(133,796)	(136,346)
Deferred lease fees and loan costs.....	26,150	(332,458)	(923,681)	(594,547)
Accounts receivable from related parties.....	--	42,620	(28,788)	(109,486)
Deferred offering costs and prepaids.....	181,303	(155,055)	(3,218)	(7,957)
Tenant security deposits.....	7,682	(5,660)	(22,067)	6,862
Accrued straight line rents receivable.....	238,707	(267,102)	(380,279)	(283,812)
Accrued expenses and accounts payable.....	(53,828)	1,198,327	(111,059)	342,158
Accounts payable to related parties.....	--	(115,914)	(11,395)	209,142
Net cash provided by (used in) operating activities.....	2,798,914	1,184,658	(421,408)	134,516
Investing activities				
Changes in restricted cash.....	834,717	(466,228)	(462,545)	--
Purchases of, and improvements to, rental properties.....	(346,978)	(6,284,966)	(3,220,404)	(16,140,703)
Net cash provided by (used in) investing activities.....	487,739	(6,751,194)	(3,682,949)	(16,140,703)
Financing activities				
Proceeds from borrowings.....	--	4,918,424	27,168,946	19,550,834
Principal payments on notes payable.....	(398,724)	(851,188)	(23,344,668)	(2,061,674)
Distributions to partners.....	(1,759,220)	(1,043,944)	(1,437,427)	(1,794,472)
Capital contributions from partners.....	--	1,045,687	3,037,317	706,209
Net cash (used in) provided by financing activities.....	(2,157,944)	4,068,979	5,424,168	16,400,897
Net increase (decrease) in cash and cash equivalents.....	1,128,709	(1,497,557)	1,319,811	394,710
Cash and cash equivalents at beginning of year.....	865,647	2,363,204	1,043,393	648,683
Cash and cash equivalents at end of year.....	\$ 1,994,356	\$ 865,647	\$ 2,363,204	\$ 1,043,393
Supplemental disclosures of cash flow information				
Cash paid during the year for interest (net of interest capitalized of \$-0-, \$15,772, \$-0-, and \$487,173, for the period from January 1, 1994 to June 13, 1994 and for the years ended December 31, 1993, 1992, and 1991, respectively).....	\$ 2,410,237	\$ 5,098,233	\$ 5,147,855	\$ 3,745,068

See accompanying notes.

**HIGHWOODS GROUP**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business** The Highwoods Group is engaged in the ownership, management, operation, leasing and development of commercial real estate properties. The Highwoods Group owns and operates fourteen buildings located in the Research Triangle Park region of North Carolina.

**Principles of Combination**

The Highwoods Group is not a legal entity but rather a combination of commercial real estate properties that are organized as general partnerships and are under common control, and an affiliated real estate management company, the Highwoods Properties Company ("HPC"). HPC provides property management services to the properties. All significant intercompany transactions and balances have been eliminated in the combination.

As discussed in Note 7, on June 14, 1994, the Highwoods Group intended to transfer its properties and property management operation to a real estate investment trust (REIT), Highwoods Properties, Inc. Rental Property

Rental properties are stated at the lower of cost or net realizable value. All capitalizable costs related to the improvement or replacement of commercial real estate properties are capitalized. Depreciation is computed by the straight-line method over the estimated useful life of 40 years for buildings and improvements and five to seven years for furniture and equipment. Tenant improvements are amortized over the life of respective leases, using the straight-line method.

**Cash Equivalents**

The Highwoods Group considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Revenue Recognition**

Minimum rental income is recognized on a straight-line basis over the term of the lease, and due and unpaid rents are included in rents and other receivables from tenants in the accompanying balance sheet. Certain lease agreements contain provisions which provide reimbursement of real estate taxes, insurance and certain common area maintenance (CAM) costs. These additional rents are recorded on the accrual basis. All rent and other receivables from tenants are due from commercial building tenants located in the properties. Lease fee income is recognized 50% when the lease is signed and 50% when the tenant takes occupancy.

**Deferred Lease Fees and Loan Costs**

Lease fees and concessions and loan costs are capitalized at cost and amortized over the life of the related lease or loan.

**Other Income**

Other income consists primarily of management fees generated by HPC from providing property management services to third parties and interest income.

**Income Taxes**

No provision has been made for income taxes because the commercial real estate properties are owned by partnerships whose partners are required to include their respective share of profits or losses in their individual tax returns.

**HIGHWOODS GROUP**  
**NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)**

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued HPC elected to be taxed for federal and state income tax purposes as an S-Corporation under provisions of the Internal Revenue Code. Consequently income, losses and credits are passed through directly to the shareholders, rather than being taxed at the corporate level. This election was effective as of January 1, 1993. Previously, HPC operated as a general partnership.

**2. MORTGAGES AND NOTES PAYABLE**

Mortgages Payable Conventional mortgages payable are comprised of 20 loans at December 31, 1993 and 17 loans at December 31, 1992, each of which is collateralized by a building and related land included in real estate assets. The mortgages payable are generally due in monthly installments of interest and principal and mature at various dates through 2011. Interest rates on fixed rate mortgages payable aggregating \$41,138,812 and \$38,469,318 at December 31, 1993 and 1992, respectively, range from 7% to 9.875% (averaging 8.77% at December 31, 1993). Interest rates on variable rate mortgages payable aggregating \$22,720,011 and \$21,023,907 at December 31, 1993 and 1992, respectively, range from the prime rate (6.0% at December 31, 1993) to 1.5% above the prime rate.

**Unsecured Notes Payable**

Unsecured notes payable are comprised of four loans at December 31, 1993, and six loans at December 31, 1992. The notes payable are generally due in monthly installments of interest and principal and mature at various dates through 2000. Interest rates on fixed rate notes payable aggregating \$328,395 and \$523,567 at December 31, 1993 and 1992 respectively, range from 6% to 11% (averaging 8.31% at December 31, 1993). Interest rates on variable rate notes payable aggregating \$159,362 and \$262,552 (of which all is due to related parties) at December 31, 1993 and 1992 respectively, range from the prime rate (6.0% at December 31, 1993) to 1.5% above the prime rate.

Combined aggregate principal maturities of mortgages and notes payable at December 31, 1993 are as follows:

1994.....	\$18,435,354
1995.....	1,132,936
1996.....	782,363
1997.....	846,760
1998.....	8,350,738
Thereafter.....	34,798,429
	\$64,346,580

All of the properties are pledged as collateral for the mortgages payable. In connection with the procurement of mortgages on completed buildings, the lenders require a holdback of a portion of the loan proceeds to provide for tenant fit-ups in the buildings. These proceeds are then drawn as fit-up expenses are incurred. Such hold back amounts are included in restricted cash in the consolidated balance sheet. (1993 -- \$928,773; 1992 -- \$462,545).

**HIGHWOODS GROUP**  
**NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)**

3. LEASES The Highwoods Group leases automobiles, and office space under various operating leases. Total rent expense for these leases was \$69,900, \$148,000, \$162,000 and \$163,000 for the period from January 1, 1994 to June 13, 1994 and for the years ended December 31, 1993, 1992 and 1991, respectively. As of June 13, 1994, the Company did not have contractual leases in place with remaining terms of one year or more.

4. MANAGEMENT COMPENSATION PROGRAM In 1989, HPC adopted two bonus plans for four members of management. The first plan provides for approximately 15.5% of the net income of HPC for each fiscal year to be divided among the managers, based on performance, and paid in the first quarter following the end of the fiscal year. The second plan provides that 25% of all profits of HPC in excess of \$700,000 for each fiscal year be contributed to a pool for the same four members of management, based on established percentages. Amounts contributed under the plan are paid to the employees ratably over a three-year period. These bonuses are discretionary and approved by the partners annually. If any of the employees under the plan are terminated or leave HPC for any reason, that employee forfeits rights to receive payout of the unpaid portion in their bonus account. Compensation expense related to the bonus plan was \$212,060, \$147,703, and \$225,146 for the years ended December 31, 1993, 1992 and 1991 respectively. There was no expense incurred for the period from January 1, through June 13, 1994.

5. RENTAL INCOME The Highwoods Group's developed property is being leased to tenants under operating leases that expire over the next ten years. The minimum rental amounts under the leases are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases also require that the tenants reimburse the Highwoods Group for increases in certain costs above their base year costs. Expected future minimum rents to be received over the next five years and thereafter from related party and other tenants for leases in effect at December 31, 1993 are as follows:

	Related Party	Other Tenants	Total
1994.....	\$ 78,589	\$ 9,371,140	\$ 9,449,729
1995.....	78,589	8,943,983	9,022,572
1996.....	78,589	7,684,132	7,762,721
1997.....	6,549	6,223,503	6,230,052
1998.....	--	5,149,191	5,149,191
Thereafter.....	--	10,335,729	10,335,729
	\$242,316	\$47,707,678	\$47,949,994

Two major tenants represented 11% and 10% of the Highwoods Group's total rental income for the year ended December 31, 1993.

6. RELATED PARTY TRANSACTIONS There are several business relationships with related parties which involve management, leasing and maintenance fees for buildings, as well as advancing money in the ordinary course of business to other entities whose principal owners are partners in HPC. Total fees received from related parties for the period from January 1, 1994 to June 13, 1994 and for the years ended December 31, 1993, 1992 and 1991 were \$10,989, \$494,000, \$516,000 and \$330,000, respectively.

**HIGHWOODS GROUP**  
**NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)**

6. RELATED PARTY TRANSACTIONS -- Continued Other related party transactions include leasing fees paid to an affiliated business of \$2,267, \$12,100, \$6,300 and \$56,000 for the period from January 1, 1994 to June 13, 1994 and during 1993, 1992 and 1991, respectively, partners' management fees of \$-0- for the period from January 1, 1994 to June 13, 1994 \$30,000 in each of 1993, 1992 and 1991 and rent paid to an affiliated business of \$9,900, \$34,000, \$38,000 and \$39,000 for the period from January 1, 1994 to June 13, 1994 and in 1993, 1992, and 1991, respectively. During 1992, the Highwoods Group purchased a vehicle from a related company for approximately \$21,000. The amount of land purchased from related parties for the years ended December 31, 1993 and 1991 was \$142,284 and \$888,854 respectively.

7. SUBSEQUENT EVENT On June 14, 1994, the Highwoods Group transferred all of its assets and liabilities to Highwoods Realty Limited Partnership in connection with Highwoods Properties, Inc.'s initial public offering of common stock.



**HIGHWOODS GROUP**  
**SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION**  
December 31, 1993

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period		Total (A)
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	
Blue Ridge II	\$ 1,686,036	\$ 433,556	--	--	\$ 1,323,291	\$ 433,556	\$ 1,323,291	\$ 1,756,847
Cape Fear/Catawba	3,010,488	256,322	--	--	3,258,258	256,322	3,258,258	3,514,580
CompuChem Expressway	7,220,423	268,866	--	--	6,097,552	268,866	6,097,552	6,366,418
One	1,794,970	241,583	--	--	1,724,973	241,583	1,724,973	1,966,556
Hawthorn	5,035,976	904,437	--	--	3,767,097	904,437	3,767,097	4,671,534
Highwoods North	1,851,720	1,554,732	--	--	48,892	1,554,732	48,892	1,603,624
Highwoods South	4,057,240	2,746,136	--	\$(249,225)	--	2,496,911	--	2,496,911
Highwoods Tower	17,000,000	203,419	--	--	16,574,375	203,419	16,574,375	16,777,794
Ironwood/Leatherwood	2,802,433	531,609	\$2,126,435	--	68,611	531,609	2,195,046	2,726,655
Kaiser	5,035,976	133,126	--	--	3,564,301	133,126	3,564,301	3,697,427
Rexwoods II	1,599,416	354,735	--	--	1,773,567	354,735	1,773,567	2,128,302
Rexwoods III	3,572,377	885,598	--	--	2,709,598	885,598	2,709,598	3,595,196
Rexwoods Center	4,452,026	775,408	--	--	3,243,234	775,408	3,243,234	4,018,642
Riverbirch	4,739,742	448,314	--	--	3,861,035	448,314	3,861,035	4,309,349
	\$63,858,823	\$ 9,737,841	\$2,126,435	\$(249,225)	\$48,014,784	\$ 9,488,616	\$50,141,219	\$ 59,629,835
			Life on Which					
Description	Accumulated Depreciation	Date of Construction	Depreciation is Computed					
Blue Ridge II	\$ 262,871	1988	5-40 yrs.					
Cape Fear/Catawba	1,660,012	1980	5-40 yrs.					
CompuChem Expressway	1,402,874	1980	5-40 yrs.					
One	156,031	1990	5-40 yrs.					
Hawthorn	1,298,151	1987	5-40 yrs.					
Highwoods North	7,566	1983	5-40 yrs.					
Highwoods South	--	1983	N/A					
Highwoods Tower	1,181,907	1991	5-40 yrs.					
Ironwood/Leatherwood	8,355	(B)	5-40 yrs.					
Kaiser	798,539	1988	5-40 yrs.					
Rexwoods II	9,615	1993	5-40 yrs.					
Rexwoods III	188,277	1992	5-40 yrs.					
Rexwoods Center	468,538	1990	5-40 yrs.					
Riverbirch	597,156	1987	5-40 yrs.					
	\$8,039,892							

(A) The aggregate cost for Federal Income Tax purposes was approximately \$59,629,835.

(B) The property was acquired in 1993.

**HIGHWOODS GROUP**  
**SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION (CONTINUED)**  
June 13, 1994

The changes in the Highwoods Group for the period from January 1, 1994 to June 13, 1994 and for the three years ended December 31, 1993 are as follows:

	Period from January 1, 1994 to June 13, 1994	1993	1992	1991
Real estate balance at beginning of period....	\$ 59,629,835	\$ 53,478,294	\$50,324,176	\$34,218,255
Properties developed (1).....	--	2,128,302	686,918	15,680,331
Properties acquired.....	--	2,658,044	--	--
Improvements.....	2,025,410	1,365,195	2,479,315	686,376
Disposals.....	--	--	(12,115)	(260,786)
Balance at end of period.....	\$ 61,655,245	\$ 59,629,835	\$53,478,294	\$50,324,176

(1) Land was acquired from related parties for \$142,284 in 1993 and \$888,854 in 1991. The changes in accumulated depreciation for the period from January 1, 1994 to June 13, 1994 and for the three years ending December 31, 1993 are as follows:

	Period from January 1, 1994 to June 13, 1994	1993	1992	1991
Balance at beginning of period.....	\$8,039,892	\$ 6,852,176	\$5,769,702	\$4,928,759
Depreciation for period.....	639,541	1,187,716	1,082,474	851,566
Disposals.....	--	--	--	(10,623)
Balance at end of period.....	\$8,679,433	\$ 8,039,892	\$6,852,176	\$5,769,702

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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 June 18, 1996.

### HIGHWOODS PROPERTIES, INC.

By: /s/ RONALD P. GIBSON  
 Ronald P. Gibson, President and  
 Chief Executive Officer

*Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.*

Signature	Title	Date
/s/ O. TEMPLE SLOAN, JR. O. Temple Sloan, Jr.	Chairman of the Board of Directors	June 18, 1996
/s/ RONALD P. GIBSON Ronald P. Gibson	President, Chief Executive Officer and Director	June 18, 1996
/s/ WILLIAM T. WILSON III William T. Wilson III	Executive Vice President, Chief Operating Officer and Director	June 18, 1996
/s/ JOHN L. TURNER John L. Turner	Vice Chairman of the Board and Chief Investment Officer	June 18, 1996
John W. Eakin	Vice President and Director	
Thomas S. Smith	Vice President and Director	
/s/ THOMAS W. ADLER Thomas W. Adler	Director	June 18, 1996
/s/ WILLIAM E. GRAHAM, JR. William E. Graham, Jr.	Director	June 18, 1996
/s/ ROBERT L. KIRBY Robert L. Kirby	Director	June 18, 1996
/s/ L. GLENN ORR, JR. L. Glenn Orr, Jr.	Director	June 18, 1996

Signature	Title	Date
Willard W. Smith, Jr.	Director	
/s/ STEPHEN TIMKO	Director	June 18, 1996
Stephen Timko		
/s/ CARMAN J. LIUZZO	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 18, 1996
Carman J. Liuzzo		

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**End of Filing**



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