

HIGHWOODS PROPERTIES INC

FORM 8-K/A (Unscheduled Material Events)

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CIK	0000921082
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported) April 1, 1996

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of incorporation)

001-13100
(Commission File Number)

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

3100 SMOKETREE COURT, SUITE 700
RALEIGH, NC
(address of principal executive office)

27604
(Zip Code)

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Business Acquired.

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

EXHIBIT NO.	DESCRIPTION
2.1(1)	Master Agreement of Merger and Acquisition by and among Highwoods Properties, Inc. Highwoods/Forsyth Limited Partnership, Eakin & Smith, Inc. and the partnerships and limited liability companies listed therein (list of omitted schedules included)
2.2(1)	Agreement pursuant to Item 601 (b)(2) of Regulation S-K
2.3(1)(2)	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein
10.1(1)	Employment Agreement between Highwoods Properties, Inc. and John W. Eakin
10.2(1)	Employment Agreement between Highwoods Properties, Inc. and Thomas S. Smith
10.3(1)	Form of warrants to purchase Common Stock of Highwoods Properties, Inc. issued to W. Brian Reames, John W. Eakin, and Thomas S. Smith
23.1	Consent of Ernst & Young LLP

(1) Previously filed.

(2) Incorporated by reference to the Annual Report on Form 10-K of Highwoods Properties, Inc. for the year ended December 31, 1995.

Report of Independent Auditors

The Board of Directors and Stockholders
Highwoods Properties, Inc.

We have audited the accompanying combined balance sheet of Eakin & Smith as of December 31, 1995 and the related combined statements of income, owners' surplus, and cash flows for the year then ended. We have also audited the financial statement schedule listed in the contents. These financial statements and financial statement schedule are the responsibility of Eakin & Smith's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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 Eakin & Smith at December 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule referred to above, 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.

Raleigh, North Carolina
April 17, 1996

Eakin & Smith

Combined Balance Sheets

	March 31 1996 (Unaudited)	December 31 1995
Assets		
Rental properties, at cost: (Notes 2, 3, 4)		
Land	\$ 9,356,991	\$ 9,356,991
Land improvements	1,207,693	1,207,693
Buildings	39,922,547	39,915,810
Building and tenant improvements	4,448,578	4,295,622
Furniture, fixtures and equipment	2,419,020	2,419,020
Construction in progress	965,414	337,879
	58,320,243	57,533,015
Less accumulated depreciation	(3,428,159)	(3,144,325)
Rental properties, net	54,892,084	54,388,690
Cash and cash equivalents (Note 1)	1,053,502	2,871,007
Restricted cash (Note 1)	31,500	64,056
Rents receivable from tenants	18,294	66,661
Accrued straight-line rents receivable	626,550	552,801
Prepays	-0-	17,966
Other assets (Note 1):		
Deferred lease fees and loan costs	2,069,159	1,939,959
Less accumulated amortization	(623,887)	(558,073)
	1,445,272	1,381,886
Deposits	6,000	6,000
Total assets	\$58,073,202	\$59,349,067

	March 31 1996 (Unaudited)	December 31 1995
Liabilities and owners' surplus		
Mortgages payable (Note 2)	\$35,180,655	\$35,670,100
Line of credit	1,601,987	1,600,400
Accounts payable, accrued expenses and other liabilities	87,605	1,454,629
Total liabilities	36,870,247	38,725,129
Commitments and contingencies (Notes 3 and 4)		
Owners' surplus	21,202,955	20,623,938

Total liabilities and owners' surplus \$58,073,202 \$59,349,067

See accompanying notes.

Eakin & Smith

Combined Statements of Income

	Three months ended March 31 1996 (Unaudited)	Year ended December 31 1995
Revenue (Notes 1 and 4):		
Rental income (Note 4)	\$3,000,335	\$ 9,221,911
Leasing, development and construction income	964,337	2,714,256
Other income	-	410,786
Total revenue	3,964,672	12,346,953
Expenses:		
Property operating expenses	957,087	2,977,382
Leasing, development and construction expenses	452,101	582,553
Interest	739,524	2,161,848
Depreciation and amortization	526,109	1,955,853
Marketing, general and administrative	152,501	762,851
Total expenses	2,827,322	8,440,487
Net income	\$1,137,350	\$ 3,906,466

See accompanying notes.

Eakin & Smith

Combined Statements of Owners' Surplus

	Owners' Surplus
Balance at December 31, 1994	\$10,108,968
Owners' distributions	(3,906,496)
Owners' contributions	10,515,000
Net income for the year ended December 31, 1995	3,906,466
Balance at December 31, 1995	20,623,938
Owner's distribution (unaudited)	(558,333)
Net income for the three months ended March 31, 1996 (unaudited)	1,137,350
Balance at March 31, 1996 (unaudited)	\$21,202,955

See accompanying notes.

Eakin & Smith

Combined Statements of Cash Flows

	Three months ended March 31 1996 (Unaudited)	Year ended December 31 1995
Operating activities		
Net income	\$ 1,137,350	\$ 3,906,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	526,109	1,955,853
Changes in operating assets and liabilities:		
Rents receivable from tenants	48,376	61,754
Accrued straight-line rents receivable	(73,749)	(268,612)
Prepays	(17,966)	(17,966)
Deferred lease fees and loan costs	(129,200)	(740,369)
Deposits	-	(6,000)
Accounts payable, accrued expenses and other liabilities	(1,367,024)	938,506
Net cash provided by operating activities	123,887	5,829,632
Investing activities		
Changes in restricted cash	32,556	(47,464)
Purchases of, and improvements to, rental properties	(927,757)	(25,686,478)
Net cash used in investing activities	(895,201)	(25,733,942)
Financing activities		
Proceeds from mortgages payable	-	15,581,008
Principal payments on mortgages payable	(489,445)	(814,858)
Net proceeds on line of credit	1,587	(929,257)
Distributions to owners	(558,333)	(3,906,496)
Capital contributions from owners	-	10,515,000
Net cash (used in) provided by financing activities	(1,046,191)	20,445,397
Net (decrease) increase in cash and cash equivalents	(1,817,505)	541,087
Cash and cash equivalents at beginning of period	2,871,007	2,329,920
Cash and cash equivalents at end of period	\$ 1,053,502	\$ 2,871,007
Supplemental disclosures of cash flow information		
Cash paid during the year for interest (net of interest capitalized of \$30,200 and \$131,800 for the three months ended March 31, 1996 and the year ended December 31, 1995, respectively)	\$ 740,000	\$ 2,146,414

See accompanying notes.

1. Description of Business and Significant Accounting Policies

Description of Business

Eakin & Smith ("the Company") is engaged in the ownership, management, operation, leasing and development of commercial real estate properties. The Company owns and operates seven buildings located in the metropolitan area of Nashville, Tennessee.

Principles of Combination

The Company is not a legal entity but rather a combination of commercial real estate properties that are organized as seven general partnerships and one S-Corporation, Eakin & Smith, Inc. ("E&S"). E&S provides property management services to the properties and third parties. E&S also serves as a general partner in the seven general partnerships. All significant intercompany transactions and balances have been eliminated in combination.

As discussed in Note 6, on March 31, 1996, the Company sold its properties and property management operation to a real estate investment trust (REIT), Highwoods Properties, Inc.

Rental Properties

Rental properties are stated at cost, less accumulated depreciation. 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 39 years for buildings, five years for building improvements, fifteen years for land 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 Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. Description of Business and Significant Accounting Policies (continued)

Restricted Cash

Restricted cash represents security deposits held by the Company for certain tenants of its properties. Amounts are fully refundable to the tenants subject to certain offsets upon the tenant meeting certain requirements as stipulated in the lease agreements.

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 receivable 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 recognition begins when the tenant takes occupancy.

Deferred Lease Fees and Loan Costs

Lease fees 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 E&S 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.

E&S 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 July 1, 1995. Previously, E&S operated as a C-Corporation. As of July 1, 1995, the C-Corporation did not have any income tax obligations since the Corporation incurred a loss for the six months ended June 30, 1995.

1. Description of Business and Significant Accounting Policies (continued)

Concentration of Credit Risk

Management of the Company performs ongoing credit evaluations of its tenants. The properties are leased to approximately 180 tenants in one metropolitan area, which engage in a wide variety of business. One tenant accounted for 12% of rental income in 1995.

Interest Rate Risk Management

The Company has entered into an interest rate swap to manage its interest rate risk. Payments to or from the counterparty are recorded as adjustments to interest expense.

The Company would not realize a material loss as of December 31, 1995, in the event of non-performance by the counterparty since there was not a significant fluctuation in interest rates between the contract rates and stated rates on the debt. The financial institution counterparty has a credit rating of Aa3 or better.

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.

Impact of Recently Issued Accounting Standards

In March 1995, the FASB issued Statement No. 121, Accounting for the Improvement of Long-Lived Assets and for 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 asset's carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement 121 in the first quarter of fiscal year ending December 31, 1996 and, based on current circumstances, does not believe the effect of adoption will be material.

2. Mortgages Payable and Line of Credit

Mortgages Payable

Conventional fixed rate mortgages payable includes four loans at December 31, 1995. The outstanding balance on these loans was \$30,215,325 at December 31, 1995. Each loan is collateralized by rental property assets. The mortgages payable are generally due in monthly installments of interest and principal and mature at various dates through the year 2015. Interest rates on fixed rates mortgages payable range from 7.15% to 9.0% with a weighted average rate of 8.03% at December 31, 1995.

Variable rate mortgages payable includes one loan at December 31, 1995 with an outstanding balance of \$5,454,775. The loan is secured by rental property assets. The mortgage is payable in monthly installments of interest and principal and matures in January 2004. The interest rate on this variable rate mortgage payable was 1.75% above the 30-day London Interbank Offered Rate ("LIBOR"). At December 31, 1995, 30-day LIBOR was 5.9%.

The Company has entered into an interest swap agreement with a financial institution to effectively fix the interest rate on the variable rate mortgage payable at a rate of 7.66%. At December 31, 1995, the notional amount of the interest rate swap equaled the outstanding balance of the mortgage payable.

During 1995, total interest costs incurred on mortgages payable was \$2,146,057. Capitalized interest in 1995 was \$131,843.

Line of Credit

The Company has a \$3,000,000 available line of credit with a financial institution. At December 31, 1995, the outstanding balance was \$1,600,400. The line of credit is secured by common stock investments of the owners of the Company and personal guarantees of the general partners. The line of credit, which matures on September 30, 1996, bears interest at 1.25% above 30-day LIBOR. Interest incurred on the line of credit was \$147,634 for the year ended December 31, 1995.

2. Mortgages Payable and Line of Credit (continued)

Combined aggregate principal maturities of mortgages payable and the line of credit at December 31, 1995 are as follows:

1996	\$ 2,661,295
1997	1,150,157
1998	1,241,939
1999	1,342,380
2000	7,677,191
Thereafter	23,197,538
	\$37,270,500

3. Commitments and Contingencies

Contracts

The Company entered into a construction contract totaling \$4,465,000 during 1995. The amount remaining on the contract as of December 31, 1995 totaled approximately \$4,127,000.

Environmental Matters

Substantially all of the Company's properties 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 materail adverse effect on the accompanying combined financial statements.

4. Rental Income

The Company's properties in service are being leased to tenants under operating leases that expire over the next ten years. The minimum rental amounts under the leases are subject to scheduled fixed increases or adjustments based on the Cosumer Price Index. Generally, the leases also require that the tenants reimburse Eakin & Smith for increases in certain costs above their base year costs.

4. Rental Income (continued)

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:

1996	\$11,474,751
1997	11,606,982
1998	10,144,763
1999	7,834,765
2000	5,537,101
Thereafter	17,678,867
	\$64,277,229

5. Disclosure About Fair Value of Financial Statements

The following disclosures of estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgement is necessary to interpret market data and develop estimated fair values. 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:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 2,871,007	\$ 2,871,007
Accounts receivable	66,661	66,661
Mortgages payable and line of credit	37,270,500	37,338,030
Interest rate swap agreement	-	-

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

5. Disclosure About Fair Value of Financial Statements (continued)

The fair value of the Company's interest rate swap agreement represents the estimated amount the Company would receive or pay to terminate or replace the financial instrument 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.

6. Subsequent Event

On March 31, 1996, the Company combined all of its assets and liabilities with Highwoods Realty Limited Partnership. The transaction was accounted for as a purchase. Proceeds from the sale were approximately \$100,000,000.

Eakin and Smith.

Schedule III - Real Property and Accumulated Depreciation

December 31, 1995

Description	Emcumbrance	Initial Cost Land & Improvements	Cost Buildings & Improvements	Cost Capitalized subsequent to Acquisition Land & Improvements	Acquistion Buildings & Improvements	Gross Amount at Which Carried at Close of Period Land & Improvements	Buildings & Improvements	Total
BNA Associate \$17,987,656	\$11,964,512	\$ 730,000	\$16,820,000	\$ --	\$ 437,656	730,000	17,257,656	
East Park 6,217,997	4,348,483	2,065,000	3,736,000	8,000	408,997	2,073,000	4,144,997	
Lakeview 6,292,495	5,454,775	1,345,000	4,745,711	--	201,784	1,345,000	4,947,495	
Maryland Way 1,771,553	--	1,741,096	--	30,457	--	1,771,553	--	
Ridge Development 855,784	--	760,000	--	95,784	--	855,784	--	
3401 Associates 15,052,654	10,303,431	2,489,000	12,348,039	--	215,615	2,489,000	12,563,654	
5310 Associates 6,597,977	5,199,299	1,205,654	4,649,859	94,693	647,771	1,300,347	5,297,630	
\$54,776,116	\$37,270,500	\$10,335,750	\$42,299,609	\$ 228,934	\$ 1,911,823	\$10,564,684	\$44,211,432	

Description	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
BNA Associate	184,254	(2)	5-39 yrs.
East Park	369,498	(1)	5-39 yrs.
Lakeview	348,279	(1)	5-39 yrs.
Maryland Way	--	(3)	N/A
Ridge Development	--	(4)	N/A
3401 Associates	1,173,694	(1)	5-39 yrs.
5310 Associates	129,137	1995	5-39 yrs.
	2,204,862		

- (1) Building and land acquired in 1994
(2) Building and land acquired in 1995

- (3) Property currently under construction
(4) Property currently consists of land only

Eakin & Smith Schedule III - Rental Properties and Accumulated Depreciation December 31, 1995

A summary of activity for rental properties and accumulated depreciation is as follows:

Rental properites:	
Balance at beginning of year	\$27,832,905
Additions:	
Acquisitions and development	23,370,794
Improvements	3,572,417
Cost of rental properties sold	-
Balances at end of year (a)	\$54,776,116
Accumulated depreciation:	
Balance at beginning of year	\$ 882,160
Depreciation expense	1,322,702
Rental property sold	-
Balances at end of year (b)	\$ 2,204,862

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

Total per Schedule III	\$54,776,116
Furniture, fixtures and equipment	2,419,020
Construction in process	337,879
Total rental property assets at cost	\$57,533,015

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

Total per Schedule III	\$ 2,204,862
Accumulated depreciation - furniture, fixtures and equipment	939,463
Total accumulated depreciation	\$ 3,144,325

HIGHWOODS PROPERTIES, INC.

PRO FORMA CONDENSED COMBINING BALANCE SHEET (UNAUDITED)

MARCH 31, 1996
(IN THOUSANDS)

	HISTORICAL (A)	EAKIN & SMITH TRANSACTION	PRO FORMA
ASSETS			
Real estate assets, net.....	\$602,276	\$91,911(b)	\$694,187
Cash and cash equivalents.....	8,383		8,383
Accounts and notes receivables.....	7,861		7,861
Accrued straight line rent receivable.....	3,807		3,807
Other assets.....	10,317		10,317
	\$632,644	\$91,911	\$724,555
LIABILITIES AND STOCKHOLDERS' EQUITY			
Mortgages and notes payable.....	\$196,718	\$63,680(c)	\$260,398
Accounts payable, accrued expenses and other.....	9,977		9,977
Total liabilities.....	206,695	63,680	270,375
Minority interest.....	73,440	14,772(d)	88,212
Stockholders' equity:			
Common stock.....	194	5(e)	199
Additional paid in capital.....	355,248	13,454(e)	368,702
Distributions in excess of net earnings.....	(2,933)		(2,933)
Total stockholders' equity.....	352,509	13,459	365,968
	\$632,644	\$91,911	\$724,555

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA CONDENSED COMBINING BALANCE SHEET (UNAUDITED)

MARCH 31, 1996

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining balance sheet is presented as if the Eakin & Smith transaction had been consummated on March 31, 1996.

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

This unaudited pro forma condensed combining balance sheet should be read in conjunction with the pro forma condensed combining statement of operations of the Company, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K and the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q.

The pro forma condensed combining balance sheet is unaudited and is not necessarily indicative of what the actual financial position would have been had the aforementioned transaction actually occurred on March 31, 1996 nor does it purport to represent the future financial position of the Company.

2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINING BALANCE SHEET

(a.) Represents the Company's historical balance sheet contained in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(b.) Represents the initial purchase price of \$91,610,000 for the seven in-service suburban office properties totaling 848,000 square feet, the 103,000 square foot suburban development project, 18 acres of development land and Eakin and Smith's brokerage and property management operations plus closing costs of approximately \$300,000.

(c.) Represents the assumption of \$37,027,000 of mortgage indebtedness at an average rate of 8.0% and borrowings on the Company's Credit Facility of \$26,653,000 to fund the cash component of the Eakin & Smith Transaction.

(d.) Represents the issuance of 537,137 Units of Highwoods/Forsyth Limited Partnership valued at the April 1, 1996 closing price of the Company's Common Stock of \$27.50 to the sellers in connection with the Eakin & Smith Transaction.

(e.) Represents the issuance of 489,421 shares of Common Stock valued at the April 1, 1996 closing price of \$27.50 to the sellers in connection with the Eakin & Smith Transaction.

HIGHWOODS PROPERTIES, INC.

PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 1996 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL (A)	EAKIN & SMITH TRANSACTION (B)	PRO FORMA ADJUSTMENTS	PRO FORMA
REVENUE:				
Rental property.....	\$23,385	\$3,000	\$ --	\$26,385
Other income.....	372	964	--	1,336
	23,757	3,964	--	27,721
OPERATING EXPENSES:				
Rental property.....	6,154	957	--	7,111
Leasing, development and construction.....	--	452	--	452
Depreciation and amortization.....	3,716	526	(73) (c)	4,169
Interest expense:				
Contractual.....	3,542	739	468 (d)	4,749
Amortization of deferred financing costs.....	409		--	409
	3,951	739	468	5,158
General and administrative.....	934	153	47 (e)	1,134
Income before minority interest.....	9,002	1,137	(442)	9,697
Minority interest.....	(1,571)		(145) (f)	(1,716)
Net income.....	\$ 7,431	\$1,137	\$ (587)	\$ 7,981
Net income per share.....	\$ 0.38			\$ 0.40
Weighted average shares.....	19,406			19,895

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 1996

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the Eakin & Smith Transaction had been consummated on January 1, 1996.

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed combining balance sheet of the Company, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K and the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q.

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

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

(a.) Represents the Company's historical statement of operations contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(b.) Reflects the historical statement of operations of Eakin & Smith for the quarter ended March 31, 1996.

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

(d.) Represents the net adjustment to interest expense to reflect interest costs on borrowings under the Company's Credit Facility at an assumed rate of 7.0% and to allow for a full quarter of interest on the debt assumed in the Eakin & Smith Transaction.

(e.) Represents the net adjustment to general and administrative expense to reflect the estimated incremental costs to the Company of operating a Nashville division.

(f.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 17.7%.

HIGHWOODS PROPERTIES, INC.

PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 1995 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL (A)	FORSYTH PROPERTIES RESEARCH COMMONS AND SECOND OFFERING (B)	OTHER ACQUISITIONS (C)	THIRD OFFERING (D)	COMBINED COMPANY PRE-EAKIN & SMITH PRO FORMA	EAKIN & SMITH TRANSACTION (E)
REVENUE:						
Revenue:						
Rental property.....	\$ 71,217	\$ 4,362	\$ 12,658	\$ --	\$ 88,237	\$ 9,222
Other income.....	2,305	50	--	--	2,355	3,125
	73,522	4,412	12,658	--	90,592	12,347
OPERATING EXPENSES:						
Rental property.....	17,049	923	3,368	135	21,475	2,977
Leasing, development and construction....	--	--	--	--	--	583
Depreciation and amortization.....	11,082	985	1,883	--	13,950	1,956
Interest expense:						
Contractual.....	12,101	888	3,586	(1,598)	14,977	2,161
Amortization of deferred financing costs.....	1,619	46	--	--	1,665	--
	13,720	934	3,586	(1,598)	16,642	2,161
General and administrative.....	2,737	83	--	98	2,918	763
Income before minority interest.....	28,934	1,487	3,821	1,365	35,607	3,907
Minority interest.....	(4,937)	(384)	--	(376)	(5,697)	--
Income before extraordinary item.....	\$ 23,997	\$ 1,103	\$ 3,821	\$ 989	\$ 29,910	\$ 3,907
Net income per share before extraordinary item.....	\$ 1.55					
Weighted average shares.....	15,487					
	PRO FORMA ADJUSTMENTS	PRO FORMA				
REVENUE:						
Revenue:						
Rental property.....	\$ --	\$ 97,459				
Other income.....	--	5,480				
	--	102,939				
OPERATING EXPENSES:						
Rental property.....	--	24,452				
Leasing, development and construction....	--	583				
Depreciation and amortization.....	(145) (f)	15,761				
Interest expense:						
Contractual.....	2,667 (g)	19,805				
Amortization of deferred financing costs.....	--	1,665				
	2,667	21,470				
General and administrative.....	37 (h)	3,718				
Income before minority interest.....	(2,559)	36,955				
Minority interest.....	(844) (i)	(6,541)				
Income before extraordinary item.....	\$ (3,403)	\$ 30,414				
Net income per share before extraordinary item.....		\$ 1.52				
Weighted average shares.....		19,897				

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 1995

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the following transactions had been consummated on January 1, 1995:

- (a.) the acquisition of 57 properties, 76 acres of development land and the business operations of Forsyth Properties, Inc. and its affiliates (the "Forsyth Transaction"),
- (b.) the acquisition of six properties (the "Research Commons Properties") and 60 acres of development land located in the Research Commons office park (the "Research Commons Acquisition"),
- (c.) the issuance of 5,640,000 shares of Common Stock of the Company at a price of \$20.75 per share issued in connection with the Forsyth Transaction (the "Second Offering"),
- (d.) the acquisition of 56 properties and six acres of development land (the "Bissell Portfolio") located in Greensboro, North Carolina and Charlotte, North Carolina, the acquisition of five properties (the "Hock Portfolio") located in Durham, North Carolina, the acquisition of six properties (the "Parkway Plaza Portfolio") located in Charlotte, North Carolina, the acquisition of two properties (the "Initial Innsbrook Portfolio") located in Richmond, Virginia, the acquisition of six properties (the "Ross-Kreckman Portfolio" located in Richmond, Virginia, the acquisition of two properties (the "DEQ Property") located in Richmond, Virginia and the acquisition of 62 acres of development land (the "DEQ Land") located in Richmond, Virginia (collectively, the "Other Acquisitions"),
- (e.) the issuance of 4,974,989 shares of Common Stock of the Company at a price of \$24.50 per share (the "Third Offering"), and
- (f.) the completion of the Eakin and Smith Transaction.

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed combining balance sheet of the Company, the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K and the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q.

The pro forma condensed combining statement of operations is unaudited and is not necessarily indicative of what the Company's actual results would have been had the aforementioned transactions actually occurred on January 1, 1995 nor does it purport to represent the future operating results of the Company.

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

- (a.) Represents the Company's historical statement of operations contained in its Annual Report on Form 10-K for the year ended December 31, 1995.
- (b.) Reflects the Second Offering and the historical operations of the Forsyth Properties and Research Commons Properties, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by the Company.
- (c.) Reflects the historical operations of the Other Acquisitions, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by the Company.
- (d.) Reflects the reduction in interest expense associated with the repayment of certain debt and the addition of certain incremental rental property and general and administrative expenses as a result of the Bissell and Ross-Kreckman Portfolio acquisitions.
- (e.) Reflects the historical statement of operations of Eakin & Smith for the year ended December 31, 1995.

HIGHWOODS PROPERTIES, INC.

NOTES TO PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS -- CONTINUED

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

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

(g.) Represents the net adjustment to interest expense to reflect interest costs on borrowings under the Company's Credit Facility and interim facility at an assumed rate of 7.0% and to allow for a full year of interest on the debt assumed in the Eakin & Smith Transaction.

(h.) Represents the net adjustment to general and administrative expense to reflect the estimated incremental costs to the Company of operating a Nashville division.

(i.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 17.7%.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registration has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized, on June 3, 1996.

Highwoods Properties, Inc.
(Registrant)

By: /s/ CARMAN J. LIUZZO

CARMAN J. LIUZZO
VICE PRESIDENT, CHIEF FINANCIAL
OFFICER AND TREASURER

Date: June 3, 1996

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION	SEQUENTIAL PAGE NO.
2.1(1)	Master Agreement of Merger and Acquisition by and among Highwoods Properties, Inc. Highwoods/Forsyth Limited Partnership, Eakin & Smith, Inc. and the partnerships and limited liability companies listed therein (list of omitted schedules included)	
2.2(1)	Agreement pursuant to Item 601 (b)(2) of Regulation S-K	
2.3(1)(2)	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein	
10.1(1)	Employment Agreement between Highwoods Properties, Inc. and John W. Eakin	
10.2(1)	Employment Agreement between Highwoods Properties, Inc. and Thomas S. Smith	
10.3(1)	Form of warrants to purchase Common Stock of Highwoods Properties, Inc. issued to W. Brian Reames, John W. Eakin, and Thomas S. Smith	
23.1	Consent of Ernst & Young LLP	

(1) Previously filed.

(2) Incorporated by reference to the Annual Report on Form 10-K of Highwoods Properties, Inc. for the year ended December 31, 1995.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 33-93572, 33-97712 and 333-3890) and related Prospectuses of Highwoods Properties, Inc. and to the incorporation therein of our report dated April 17, 1996, with respect to the audited combined financial statements of Eakin and Smith for the year ended December 31, 1995 included in its Current Report on Form 8-K/A dated April 1, 1996 as amended on June 3, 1996, filed with the Securities Exchange Commission.

ERNST & YOUNG LLP

Raleigh, North Carolina
June 3, 1996

End of Filing

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