HIGHWOODS PROPERTIES INC
Form 10-Q
October 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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

Maryland	001-13100	56-1871668
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

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

North Carolina	000-21731	56-1869557
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

Highwoods Properties, Inc.
Large accelerated filer S Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

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

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

The Company had 72,579,381 shares of Common Stock outstanding as of October 20, 2011.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

Certain information contained herein is presented as of October 20, 2011, the latest practicable date prior to the filing of this Quarterly Report.

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HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(Unaudited and in thousands, except share and per share amounts)

	September 30, 2011	December 31, 2010
Assets:		
Real estate assets, at cost:		
Land	$ 368,948	$ 345,088
Buildings and tenant improvements	3,115,149	2,883,092
Development in process	7,576	4,524
Land held for development	106,975	107,101
	3,598,648	3,339,805
Less-accumulated depreciation	(878,702)	(830,153)
Net real estate assets	2,719,946	2,509,652
For-sale residential condominiums	4,995	8,225
Real estate and other assets, net, held for sale	—	13,607
Cash and cash equivalents	11,088	14,206
Restricted cash	23,230	4,399
Accounts receivable, net of allowance of $3,581 and $3,595, respectively	23,443	20,716
Mortgages and notes receivable, net of allowance of $545 and $868, respectively	18,706	19,044
Accrued straight-line rents receivable, net of allowance of $1,366 and $2,209, respectively	102,338	93,178
Investment in and advances to unconsolidated affiliates	99,910	63,607
Deferred financing and leasing costs, net of accumulated amortization of $60,950 and $59,360, respectively	129,311	85,001
Prepaid expenses and other assets	38,940	40,200
Total Assets	$ 3,171,907	$ 2,871,835
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	$ 1,893,981	$ 1,522,945
Accounts payable, accrued expenses and other liabilities	127,664	106,716
Financing obligations	32,775	33,114
Total Liabilities	2,054,420	1,662,775
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	105,995	120,838
Equity:		
Preferred Stock, $.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference $1,000 per share), 29,077 and 29,092 shares issued and outstanding, respectively	29,077	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 0 and 2,100,000 shares	—	52,500

issued and outstanding, respectively				
Common Stock, $.01 par value, 200,000,000 authorized shares; 72,579,381 and 71,690,487 shares issued and outstanding, respectively		726		717
Additional paid-in capital		1,807,107		1,766,886
Distributions in excess of net income available for common stockholders		(826,435)		(761,785)
Accumulated other comprehensive loss		(3,606)		(3,648)
Total Stockholders' Equity		1,006,869		1,083,762
Noncontrolling interests in consolidated affiliates		4,623		4,460
Total Equity		1,011,492		1,088,222
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$	3,171,907	$	2,871,835

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental and other revenues	$ 122,086	$ 115,528	$ 354,122	$ 343,796
Operating expenses:				
Rental property and other expenses	46,019	43,339	128,360	122,986
Depreciation and amortization	36,320	34,183	103,467	100,081
Impairment of assets held for use	2,429	—	2,429	—
General and administrative	12,212	8,882	27,983	24,369
Total operating expenses	96,980	86,404	262,239	247,436
Interest expense:				
Contractual	23,356	22,020	68,727	65,527
Amortization of deferred financing costs	806	858	2,448	2,528
Financing obligations	228	460	665	1,330
	24,390	23,338	71,840	69,385
Other income:				
Interest and other income	1,505	1,709	5,277	4,374
Loss on debt extinguishment	—	(85)	(24)	(85)
	1,505	1,624	5,253	4,289
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	2,221	7,410	25,296	31,264
Gains on disposition of property	262	19	462	55
Gains/(losses) on for-sale residential condominiums	(476)	54	(322)	407
Gains on disposition of investment in unconsolidated affiliates	2,282	—	2,282	25,330
Equity in earnings of unconsolidated affiliates	1,113	1,018	3,933	2,701
Income from continuing operations	5,402	8,501	31,651	59,757
Discontinued operations:				
Income from discontinued operations	269	272	897	1,233
Net gains/(losses) on disposition of discontinued operations	2,573	—	2,573	(86)
	2,842	272	3,470	1,147
Net income	8,244	8,773	35,121	60,904
Net (income) attributable to noncontrolling interests in the Operating Partnership	(366)	(366)	(1,496)	(2,819)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(249)	148	(554)	(281)
Dividends on Preferred Stock	(627)	(1,677)	(3,926)	(5,031)
	—	—	(1,895)	—

Excess of Preferred Stock redemption/repurchase cost over carrying value				
Net income available for common stockholders	$ 7,002	$ 6,878	$ 27,250	$ 52,773
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common stockholders	0.04	—	0.05	0.02
Net income available for common stockholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74
Weighted average Common Shares outstanding – basic	72,492	71,631	72,176	71,549
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common stockholders	0.04	—	0.05	0.02
Net income available for common stockholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74
Weighted average Common Shares outstanding – diluted	76,402	75,638	76,127	75,537
Dividends declared per Common Share	$ 0.425	$ 0.425	$ 1.275	$ 1.275
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	$ 4,301	$ 6,620	$ 23,953	$ 51,684
Income from discontinued operations available for common stockholders	2,701	258	3,297	1,089
Net income available for common stockholders	$ 7,002	$ 6,878	$ 27,250	$ 52,773

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity

Nine Months Ended September 30, 2011 and 2010

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Series B Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non-Controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2010	71,690,487	$ 717	$ 29,092	$ 52,500	$ 1,766,886	$ (3,648)	$ 4,460	$ (761,785)	$ 1,088,222
Issuances of Common Stock, net	711,234	7	—	—	22,036	—	—	—	22,043
Conversion of Common Units to Common Stock	43,308	—	—	—	1,344	—	—	—	1,344
Dividends on Common Stock	—	—	—	—	—	—	—	(91,900)	(91,900)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(3,926)	(3,926)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	—	10,177	—	—	—	10,177
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(391)	—	(391)
Issuances of restricted stock, net	134,352	—	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(15)	(52,500)	1,895	—	—	(1,895)	(52,515)
Share-based compensation expense	—	2	—	—	4,769	—	—	—	4,771
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(1,496)	(1,496)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	554	(554)	—
Comprehensive income:									

Net income	—	—	—	—	—	—	—	35,121	35,121
Other comprehensive income	—	—	—	—	—	42	—	—	42
Total comprehensive income									35,163
Balance at September 30, 2011	72,579,381	$ 726	$ 29,077	$ —	$ 1,807,107	$ (3,606)	$ 4,623	$ (826,435)	$ 1,011,492

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Series B Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non-Controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2009	71,285,303	$ 713	$ 29,092	$ 52,500	$ 1,751,398	$ (3,811)	$ 5,183	$ (701,932)	$ 1,133,143
Issuances of Common Stock, net	112,815	1	—	—	2,075	—	—	—	2,076
Conversion of Common Units to Common Stock	93,971	1	—	—	2,957	—	—	—	2,958
Dividends on Common Stock	—	—	—	—	—	—	—	(91,197)	(91,197)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(5,031)	(5,031)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	—	1,480	—	—	—	1,480
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(506)	—	(506)
Issuances of restricted stock, net	164,143	—	—	—	—	—	—	—	—
Share-based compensation expense	—	2	—	—	5,058	—	—	—	5,060
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(2,819)	(2,819)
Net (income) attributable to	—	—	—	—	—	—	281	(281)	—

noncontrolling interests in consolidated affiliates									
Comprehensive income:									
Net income	—	—	—	—	—	—	—	60,904	60,904
Other comprehensive income	—	—	—	—	—	836	—	—	836
Total comprehensive income									61,740
Balance at September 30, 2010	71,656,232	$ 717	$ 29,092	$ 52,500	$ 1,762,968	$ (2,975)	$ 4,958	$ (740,356)	$ 1,106,904

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Nine Months Ended September 30, 2011	2010
Operating activities:		
Net income	$ 35,121	$ 60,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,594	100,728
Amortization of lease incentives and acquisition-related intangible assets and liabilities	1,347	807
Share-based compensation expense	4,771	5,060
Allowance for losses on accounts and accrued straight-line rents receivable	1,586	3,605
Amortization of deferred financing costs	2,448	2,528
Amortization of settled cash-flow hedges	(87)	262
Impairment of assets held for use	2,429	—
Loss on debt extinguishment	24	85
Net (gains)/losses on disposition of property	(3,035)	31
(Gains)/losses on for-sale residential condominiums	322	(407)
Gains on disposition of investment in unconsolidated affiliates	(2,282)	(25,330)
Equity in earnings of unconsolidated affiliates	(3,933)	(2,701)
Changes in financing obligations	(339)	103
Distributions of earnings from unconsolidated affiliates	3,400	2,933
Changes in operating assets and liabilities:		
Accounts receivable	(3,493)	(4,689)
Prepaid expenses and other assets	(586)	(195)
Accrued straight-line rents receivable	(9,280)	(8,477)
Accounts payable, accrued expenses and other liabilities	4,118	7,407
Net cash provided by operating activities	136,125	142,654
Investing activities:		
Additions to real estate assets and deferred leasing costs	(150,558)	(66,370)
Net proceeds from disposition of real estate assets	16,530	6,801
Net proceeds from disposition of for-sale residential condominiums	2,770	3,732
Proceeds from disposition of investment in unconsolidated affiliates	4,756	15,000
Distributions of capital from unconsolidated affiliates	1,304	1,591
Repayments of mortgages and notes receivable	338	231
Investment in and advances to unconsolidated affiliates	(39,665)	(907)
Changes in restricted cash and other investing activities	(15,598)	2,396
Net cash used in investing activities	(180,123)	(37,526)
Financing activities:		
Dividends on Common Stock	(91,900)	(91,197)
Redemptions/repurchases of Preferred Stock	(52,515)	—

Dividends on Preferred Stock	(3,926)	(5,031)
Distributions to noncontrolling interests in the Operating Partnership	(4,818)	(4,857)
Distributions to noncontrolling interests in consolidated affiliates	(391)	(506)
Net proceeds from the issuance of Common Stock	22,043	2,076
Borrowings on revolving credit facility	285,400	4,000
Repayments of revolving credit facility	(150,400)	(4,000)
Borrowings on mortgages and notes payable	200,000	10,368
Repayments of mortgages and notes payable	(156,602)	(18,205)
Additions to deferred financing costs and other financing activities	(6,011)	(506)
Net cash provided by/(used in) financing activities	40,880	(107,858)
Net decrease in cash and cash equivalents	(3,118)	(2,730)
Cash and cash equivalents at beginning of the period	14,206	23,699
Cash and cash equivalents at end of the period	$ 11,088	$ 20,969

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows – Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30, 2011	2010
Cash paid for interest, net of amounts capitalized	$ 69,321	$ 66,435

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30, 2011	2010
Conversion of Common Units to Common Stock	$ 1,344	$ 2,958
Change in accrued capital expenditures	$ 3,707	$ 890
Write-off of fully depreciated real estate assets	$ 39,039	$ 34,703
Write-off of fully amortized deferred financing and leasing costs	$ 13,683	$ 11,521
Unrealized gains/(losses) on marketable securities of non-qualified deferred compensation plan	$ (354)	$ 489
Settlement of financing obligation	$ —	$ 4,184
Adjustment of noncontrolling interests in the Operating Partnership to fair value	$ (10,177)	$ (1,480)
Unrealized gain on tax increment financing bond	$ 129	$ 471
Mortgages receivable from seller financing	$ —	$ 17,030
Assumption of mortgages and notes payable related to acquisition activities	$ 192,367	$ 40,306

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements

September 30, 2011

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

(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

The Company is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership. At September 30, 2011, the Company and/or the Operating Partnership wholly owned: 302 in-service office, industrial and retail properties, comprising 29.2 million square feet; 96 rental residential units; 18 for-sale residential condominiums; 601 acres of undeveloped land suitable for future development, of which 523 acres are considered core holdings; and an additional office property that is considered completed but not yet stabilized.

The Company is the sole general partner of the Operating Partnership. At September 30, 2011, the Company owned all of the Preferred Units and 72.2 million, or 95.1%, of the Common Units. Limited partners (including one officer and two directors of the Company) own the remaining 3.8 million Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock, $.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the nine months ended September 30, 2011, the Company redeemed 43,308 Common Units for a like number of shares of Common Stock.

Common Stock Offering

We have entered into equity sales agreements with various financial institutions to offer and sell, from time to time, shares of our Common Stock by means of ordinary brokers' transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of the institutions. During the third quarter of 2011, we issued 142,000 shares of Common Stock under these agreements at an average price of $34.21 per share raising net proceeds, after sales commissions and expenses, of $4.8 million.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Our Consolidated Statements of Income for the three and nine months ended September 30, 2010 were revised from previously reported amounts to reflect those properties sold or held for sale which required discontinued operations presentation.

Our Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which we have the controlling financial interest. All significant intercompany transactions and accounts have been eliminated. At September 30, 2011 and December 31, 2010, we were not involved with any entities that were determined to be variable interest entities.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2010 Annual Report on Form 10-K.

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

1. Description of Business and Significant Accounting Policies - Continued

Use of Estimates

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

Recently Issued Accounting Standards

Beginning with our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, we will be required to enhance our disclosure of assets and liabilities measured at fair value. This includes disclosing any significant transfers between Levels 1 and 2 of the fair value hierarchy, additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy and the hierarchy classification for items whose fair value is not recorded on our Consolidated Balance Sheets but is disclosed in our Notes to Consolidated Financial Statements. Additionally, we will be required to present comprehensive income on the face of our Consolidated Statements of Income, which previously has been disclosed in our Notes to Consolidated Financial Statements.

2. Real Estate Assets

Acquisitions

In the third quarter of 2011, we acquired a six-building, 1.54 million square foot office complex in Pittsburgh, PA for a purchase price of $188.5 million. The purchase price included the assumption of secured debt recorded at fair value of $124.5 million, with an effective interest rate of 4.27%, including amortization of deferred financing costs. This debt matures in November 2017. We expensed $4.0 million of costs related to this acquisition, which are included in general and administrative expense for the three and nine months ended September 30, 2011.

In the third quarter of 2011, we also acquired a 503,000 square foot office building in Atlanta, GA for a purchase price of $78.3 million. The purchase price included the assumption of secured debt recorded at fair value of $67.9 million, with an effective interest rate of 5.45%, including amortization of deferred financing costs. This debt matures in January 2014. We expensed $0.3 million of costs related to this acquisition, which are included in general and administrative expense for the three and nine months ended September 30, 2011.

The assets acquired and liabilities assumed were recorded at preliminary estimates of fair value as determined by management based on information available at the acquisition date and on current assumptions as to future operations. These estimates are subject to change during the measurement period upon the completion of acquisition accounting, including the finalization of asset valuations. The following table sets forth a summary of the preliminary acquisition purchase price consideration for each major class of assets acquired and liabilities assumed in the acquisitions discussed above:

		Total Purchase Price Consideration
Real estate assets	$	241,602
Acquisition-related intangible assets (in deferred financing and leasing costs)		39,721
Furniture, fixtures and equipment (in prepaid expenses and other assets)		1,101
Acquisition-related intangible liabilities (in accounts payable, accrued expenses and other liabilities)		(15,627)
Total consideration	$	266,797

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

2. Real Estate Assets - Continued

The following tables set forth our rental and other revenues and net income, adjusted for interest expense and depreciation and amortization related to purchase price allocation, assuming the acquisitions discussed above both occurred as of the beginning of each annual reporting period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proforma rental and other revenues	$ 133,669	$ 129,590	$ 393,640	$ 385,400
Proforma net income	$ 7,568	$ 8,180	$ 32,823	$ 59,124
Proforma earnings per share - basic	$ 0.09	$ 0.09	$ 0.34	$ 0.71
Proforma earnings per share - diluted	$ 0.09	$ 0.09	$ 0.34	$ 0.71

Dispositions

During the third quarter of 2011, we sold an office property and adjacent land parcel in one transaction in Winston-Salem, NC for gross proceeds of $15.0 million. We recorded gain on disposition of discontinued operations of $2.6 million and gain on disposition of property of $0.3 million related to the office property and land, respectively, in the third quarter of 2011.

Impairments

We recorded impairment of assets held for use of $2.4 million in the third quarter of 2011 on two office properties located in Orlando, FL due to a change in the assumed timing of future disposition. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future.

3. Mortgages and Notes Receivable

The following table sets forth our mortgages and notes receivable:

	September 30, 2011	December 31, 2010
Seller financing (first mortgages)	$ 17,180	$ 17,180
Less allowance	—	—
	17,180	17,180
Promissory notes	2,071	2,732
Less allowance	(545)	(868)
	1,526	1,864
Mortgages and notes receivable, net	$ 18,706	$ 19,044

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning notes receivable allowance	$ 617	$ 771	$ 868	$ 698
Bad debt expense	—	240	184	328
Write-offs	(1)	(6)	(365)	(11)
Recoveries/other	(71)	(55)	(142)	(65)
Total notes receivable allowance	$ 545	$ 950	$ 545	$ 950

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

3. Mortgages and Notes Receivable - Continued

Our mortgages and notes receivable consists primarily of seller financing issued in conjunction with two disposition transactions in the second quarter of 2010. As of September 30, 2011, the contractual payments on both mortgages receivable were current and there were no indications of impairment on the receivables.

4. Investment in and Advances to Unconsolidated Affiliates

We have equity interests of 50.0% or less in various joint ventures with unrelated third parties and a debt interest in one of those joint ventures, as described below. The following table sets forth the combined, summarized income statements for our unconsolidated joint ventures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Income Statements:				
Revenues	$ 25,623	$ 26,517	$ 75,619	$ 93,819
Expenses:				
Rental property and other expenses	10,805	12,664	33,576	45,463
Depreciation and amortization	6,759	6,730	19,670	24,108
Interest expense	5,976	6,094	17,841	21,892
Total expenses	23,540	25,488	71,087	91,463
Net income	$ 2,083	$ 1,029	$ 4,532	$ 2,356
Our share of:				
Depreciation and amortization of real estate assets	$ 2,066	$ 2,115	$ 6,192	$ 8,193
Interest expense	$ 1,965	$ 2,190	$ 6,159	$ 8,368
Net income	$ 442	$ 432	$ 2,112	$ 952
Our share of net income	$ 442	$ 432	$ 2,112	$ 952
Purchase accounting and management, leasing and other fees adjustments	671	586	1,821	1,749
Equity in earnings of unconsolidated affiliates	$ 1,113	$ 1,018	$ 3,933	$ 2,701

In the third quarter of 2011, our joint venture partner exercised its option to acquire our 10.0% equity interest in the HIW Development B, LLC joint venture, which recently completed construction of a build-to-suit office property in Charlotte, NC. As a result, we received gross proceeds of $4.8 million and recorded a gain on disposition of investment in unconsolidated affiliate related to this merchant build project of $2.3 million in the third quarter of 2011.

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

5. Intangible Assets and Liabilities

The following table sets forth total intangible assets and liabilities, net of accumulated amortization:

	September 30, 2011	December 31, 2010
Assets:		
Deferred financing costs	$ 19,168	$ 16,412
Less accumulated amortization	(6,192)	(7,054)
	12,976	9,358
Deferred leasing costs (including lease incentives and acquisition-related intangible assets)	171,093	127,949
Less accumulated amortization	(54,758)	(52,306)
	116,335	75,643
Deferred financing and leasing costs, net	$ 129,311	$ 85,001
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related intangible liabilities	$ 16,455	$ 658
Less accumulated amortization	(425)	(125)
	$ 16,030	$ 533

The following table sets forth amortization of intangible assets and liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Amortization of deferred financing costs	$ 806	$ 858	$ 2,448	$ 2,528
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	$ 5,188	$ 3,912	$ 13,945	$ 11,495
Amortization of lease incentives (in rental and other revenues)	$ 368	$ 270	$ 1,009	$ 807
Amortization of acquisition-related intangible assets (in rental and other revenues)	$ 240	$ 200	$ 618	$ 318
Amortization of acquisition-related intangible liabilities (in rental and other revenues)	$ (229)	$ (27)	$ (280)	$ (69)

The following table sets forth scheduled future amortization of intangible assets and liabilities:

	Amortization of Deferred Financing Costs	Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and Amortization)	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Liabilities (in Rental and Other Revenues)
October 1, 2011 through December 31, 2011	$ 931	$ 6,263	$ 323	$ 271	$ (141)
2012	3,192	22,604	1,234	1,049	(556)
2013	2,956	17,849	1,080	802	(542)
2014	2,660	13,609	913	505	(467)
2015	2,064	9,950	695	335	(421)
Thereafter	1,173	35,214	2,536	1,103	(13,903)
	$ 12,976	$ 105,489	$ 6,781	$ 4,065	$ (16,030)

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

5. Intangible Assets and Liabilities - Continued

The weighted average remaining amortization periods for deferred financing costs, deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization), lease incentives (in rental and other revenues), acquisition-related intangible assets (in rental and other revenues) and acquisition-related intangible liabilities (in rental and other revenues) were 3.9 years, 6.4 years, 8.1 years, 5.8 years and 8.8 years, respectively, as of September 30, 2011.

In connection with the acquisitions of office properties in Atlanta, GA and Pittsburgh, PA in the third quarter of 2011, we recorded $1.6 million of above market lease intangible assets, $38.1 million of in-place lease intangible assets and $15.6 million of below market lease intangible liabilities with weighted average amortization periods of 5.4 years, 6.7 years and 8.8 years, respectively.

6. Mortgages and Notes Payable

The following table sets forth our consolidated mortgages and notes payable:

	September 30, 2011	December 31, 2010
Secured indebtedness	$ 937,846	$ 754,399
Unsecured indebtedness	956,135	768,546
Total mortgages and notes payable	$ 1,893,981	$ 1,522,945

At September 30, 2011, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of $1.5 billion.

In the third quarter of 2011, we obtained a new $475.0 million unsecured revolving credit facility, which replaced our previously existing $400.0 million revolving credit facility. Our new revolving credit facility is originally scheduled to mature on July 27, 2015. Assuming no defaults have occurred, we have an option to extend the maturity for an additional year. The new credit facility includes an accordion feature that allows for an additional $75.0 million of borrowing capacity subject to additional lender commitments. The interest rate on the new facility at our current credit ratings is LIBOR plus 150 basis points and the annual facility fee is 35 basis points. The interest rate and facility fee under the new facility are based on the higher of the publicly announced ratings from Moody’s Investors Service or Standard & Poor’s. The financial and other covenants under the new facility are substantially the same as our previous credit facility. There was $165.0 million and $347.0 million outstanding under our revolving credit facility at September 30, 2011 and October 20, 2011, respectively. At both September 30, 2011 and October 20, 2011, we had $0.2 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at September 30, 2011 and October 20, 2011 was $309.8 million and $127.8 million, respectively.

Our secured construction facility, which has $52.1 million outstanding at September 30, 2011, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points.

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

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

7. Noncontrolling Interests

Noncontrolling Interests in the Operating Partnership

Noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company. The following table sets forth noncontrolling interests in the Operating Partnership:

	Nine Months Ended September 30,	
	2011	2010
Beginning noncontrolling interests in the Operating Partnership	$ 120,838	$ 129,769
Adjustments of noncontrolling interests in the Operating Partnership to fair value	(10,177)	(1,480)
Conversion of Common Units to Common Stock	(1,344)	(2,958)
Net income attributable to noncontrolling interests in the Operating Partnership	1,496	2,819
Distributions to noncontrolling interests in the Operating Partnership	(4,818)	(4,857)
Total noncontrolling interests in the Operating Partnership	$ 105,995	$ 123,293

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income available for common stockholders	$ 7,002	$ 6,878	$ 27,250	$ 52,773
Increase in additional paid in capital from conversion of Common Units to Common Stock	709	—	1,344	2,957
Change in equity from net income available for common stockholders and conversion of Common Units to Common Stock	$ 7,711	$ 6,878	$ 28,594	$ 55,730

Noncontrolling Interests in Consolidated Affiliates

At September 30, 2011, noncontrolling interests in consolidated affiliates relates to our joint venture partner's 50.0% interest in office properties located in Richmond, VA. Our joint venture partner is an unrelated third party.

8. Disclosure About Fair Value of Financial Instruments

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

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

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

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

8. Disclosure About Fair Value of Financial Instruments - Continued

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

We had no Level 2 assets or liabilities at both September 30, 2011 and December 31, 2010.

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

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

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

	September 30, 2011	Level 1	Level 3
Assets:			
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	$ 2,919	$ 2,919	$ —
Tax increment financing bond (in prepaid expenses and other assets)	15,828	—	15,828
Impaired real estate assets	7,772	—	7,772
Total Assets	$ 26,519	$ 2,919	$ 23,600
Noncontrolling Interests in the Operating Partnership	$ 105,995	$ 105,995	$ —
Liability:			
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	$ 2,919	$ 2,919	$ —

	December 31, 2010	Level 1	Level 3
Assets:			
	$ 3,479	$ 3,479	$ —

Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)						
Tax increment financing bond (in prepaid expenses and other assets)		15,699		—		15,699
Total Assets	$	19,178	$	3,479	$	15,699
Noncontrolling Interests in the Operating Partnership	$	120,838	$	120,838	$	—
Liability:						
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	$	4,091	$	4,091	$	—

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

8. Disclosure About Fair Value of Financial Instruments – Continued

The following table sets forth our Level 3 asset:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Asset:				
Tax Increment Financing Bond				
Beginning balance	$ 15,228	$ 17,017	$ 15,699	$ 16,871
Unrealized gain (in AOCL)	600	325	129	471
Ending balance	$ 15,828	$ 17,342	$ 15,828	$ 17,342

We own a tax increment financing bond associated with a property developed by us. This bond amortizes to maturity in 2020. The estimated fair value at September 30, 2011 was $2.4 million below the outstanding principal due on the bond. If the yield-to-maturity used to fair value this bond was 100 basis points higher or lower, the fair value of the bond would have been $0.6 million lower or higher, respectively, as of September 30, 2011. Currently, we intend to hold this bond and have concluded that we will not be required to sell this bond before recovery of the bond principal. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond in the three and nine months ended September 30, 2011 and 2010. There is no legal right of offset with the liability, which we report as a financing obligation, related to this tax increment financing bond.

The following table sets forth the carrying amounts and fair values of our financial instruments not disclosed elsewhere in this Quarterly Report on Form 10-Q:

	Carrying Amount	Fair Value
September 30, 2011		
Mortgages and notes receivable	$ 18,706	$ 19,094
Mortgages and notes payable	$ 1,893,981	$ 1,987,983
Financing obligations	$ 32,775	$ 21,252
December 31, 2010		
Mortgages and notes receivable	$ 19,044	$ 19,093
Mortgages and notes payable	$ 1,522,945	$ 1,581,518
Financing obligations	$ 33,114	$ 23,880

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

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

9. Share-Based Payments

During the nine months ended September 30, 2011, we granted 146,581 stock options with an exercise price equal to the closing market price of a share of our Common Stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted average grant date fair value per share of $6.47. During the nine months ended September 30, 2011, we also granted 76,966 shares of time-based restricted stock and 57,386 shares of total return-based restricted stock with weighted average grant date fair values per share of $33.70 and $41.02, respectively. We recorded stock-based compensation expense of $1.3 million and $1.6 million during the three months ended September 30, 2011 and 2010, respectively, and $4.8 million and $5.1 million during the nine months ended September 30, 2011 and 2010, respectively. At September 30, 2011, there was $6.9 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining service period of 2.2 years.

10. Comprehensive Income and Accumulated Other Comprehensive Loss

The following table sets forth the components of comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 8,244	$ 8,773	$ 35,121	$ 60,904
Other comprehensive income:				
Unrealized gain on tax increment financing bond	600	325	129	471
Amortization of settled cash-flow hedges	(30)	(25)	(87)	262
Sale of cash-flow hedge related to disposition of investment in unconsolidated affiliate	—	—	—	103
Total other comprehensive income	570	300	42	836
Total comprehensive income	$ 8,814	$ 9,073	$ 35,163	$ 61,740

The following table sets forth the components of accumulated other comprehensive loss (“AOCL”):

	September 30, 2011	December 31, 2010
Tax increment financing bond	$ 2,413	$ 2,543
Settled cash-flow hedges	1,193	1,105
Total accumulated other comprehensive loss	$ 3,606	$ 3,648

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

11. Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental and other revenues	$ 480	$ 535	$ 1,593	$ 3,092
Operating expenses:				
Rental property and other expenses	211	166	570	1,214
Depreciation and amortization	—	98	127	647
Total operating expenses	211	264	697	1,861
Other income	—	1	1	2
Income from discontinued operations	269	272	897	1,233
Net gains/(losses) on disposition of discontinued operations	2,573	—	2,573	(86)
Total discontinued operations	$ 2,842	$ 272	$ 3,470	$ 1,147

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

	September 30, 2011	December 31, 2010
Assets:		
Land	$ —	$ 2,788
Buildings and tenant improvements	—	12,707
Land held for development	—	2,766
Total real estate assets	—	18,261
Less accumulated depreciation	—	(5,012)
Net real estate assets	—	13,249
Deferred leasing costs, net	—	58
Accrued straight line rents receivable	—	257
Prepaid expenses and other assets	—	43
Real estate and other assets, net, held for sale	$ —	$ 13,607
Tenant security deposits, deferred rents and accrued costs (1)	$ —	$ 11

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

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

12. Earnings Per Share

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Earnings per Common Share - basic:				
Numerator:				
Income from continuing operations	$ 5,402	$ 8,501	$ 31,651	$ 59,757
Net (income) attributable to noncontrolling interests in the Operating Partnership from continuing operations	(225)	(352)	(1,323)	(2,761)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates from continuing operations	(249)	148	(554)	(281)
Dividends on Preferred Stock	(627)	(1,677)	(3,926)	(5,031)
Excess of Preferred Stock redemption/repurchase cost over carrying value	—	—	(1,895)	—
Income from continuing operations available for common stockholders	4,301	6,620	23,953	51,684
Income from discontinued operations	2,842	272	3,470	1,147
Net (income) attributable to noncontrolling interests in the Operating Partnership from discontinued operations	(141)	(14)	(173)	(58)
Income from discontinued operations available for common stockholders	2,701	258	3,297	1,089
Net income available for common stockholders	$ 7,002	$ 6,878	$ 27,250	$ 52,773
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	72,492	71,631	72,176	71,549
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common stockholders	0.04	—	0.05	0.02
Net income available for common stockholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74
Earnings per Common Share - diluted:				
Numerator:				
Income from continuing operations	$ 5,402	$ 8,501	$ 31,651	$ 59,757
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates from continuing operations	(249)	148	(554)	(281)
Dividends on Preferred Stock	(627)	(1,677)	(3,926)	(5,031)

Excess of Preferred Stock redemption/repurchase cost over carrying value	—	—	(1,895)	—
Income from continuing operations available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	4,526	6,972	25,276	54,445
Income from discontinued operations available for common stockholders	2,842	272	3,470	1,147
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	$ 7,368	$ 7,244	$ 28,746	$ 55,592
Denominator:				
Denominator for basic earnings per Common Share –weighted average shares	72,492	71,631	72,176	71,549
Add:				
Stock options using the treasury method	138	210	169	183
Noncontrolling interests partnership units	3,772	3,797	3,782	3,805
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)	76,402	75,638	76,127	75,537
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common stockholders	0.04	—	0.05	0.02
Net income available for common stockholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

12. Earnings Per Share – Continued

(1) There were 0.4 million and 0.7 million options outstanding during the three months ended September 30, 2011 and 2010, respectively, and 0.3 million and 0.7 million options outstanding during the nine months ended September 30, 2011 and 2010, respectively, that were not included in the computation of diluted earnings per share because the impact of including such options would be anti-dilutive.

13. Segment Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental and Other Revenues: (1)				
Office:				
Atlanta, GA	$ 13,045	$ 11,869	$ 37,290	$ 36,066
Greenville, SC	3,617	3,312	10,560	10,439
Kansas City, MO	3,559	3,673	10,801	11,044
Memphis, TN	10,270	9,692	30,450	24,888
Nashville, TN	15,598	14,598	45,576	44,562
Orlando, FL	2,677	2,920	7,614	8,985
Piedmont Triad, NC	4,914	5,270	15,549	16,034
Pittsburgh, PA	1,582	—	1,582	—
Raleigh, NC	20,051	18,843	59,472	56,174
Richmond, VA	13,378	12,209	36,431	35,485
Tampa, FL	17,776	17,830	52,026	53,807
Total Office Segment	106,467	100,216	307,351	297,484
Industrial:				
Atlanta, GA	3,976	3,660	11,938	11,477
Piedmont Triad, NC	3,151	3,259	8,955	9,324
Total Industrial Segment	7,127	6,919	20,893	20,801
Retail:				
Kansas City, MO	8,492	8,105	25,594	24,542
Total Retail Segment	8,492	8,105	25,594	24,542
Residential:				
Kansas City, MO	—	288	284	969
Total Residential Segment	—	288	284	969
	$ 122,086	$ 115,528	$ 354,122	$ 343,796

Total Rental and Other Revenues	

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

13. Segment Information – Continued

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Operating Income: (1)				
Office:				
Atlanta, GA	$ 8,053	$ 7,388	$ 23,518	$ 22,848
Greenville, SC	2,097	1,858	6,239	6,307
Kansas City, MO	2,023	2,159	6,250	6,699
Memphis, TN	5,698	5,506	16,921	15,013
Nashville, TN	10,247	9,488	30,227	29,422
Orlando, FL	1,378	1,554	3,830	4,891
Piedmont Triad, NC	2,896	3,486	9,946	10,577
Pittsburgh, PA	897	—	897	—
Raleigh, NC	13,903	12,527	41,394	38,203
Richmond, VA	7,769	7,631	23,857	23,985
Tampa, FL	11,003	10,900	32,194	32,711
Total Office Segment	65,964	62,497	195,273	190,656
Industrial:				
Atlanta, GA	2,859	2,492	8,699	8,055
Piedmont Triad, NC	2,251	2,459	6,583	6,834
Total Industrial Segment	5,110	4,951	15,282	14,889
Retail:				
Kansas City, MO	5,027	4,573	15,149	14,671
Total Retail Segment	5,027	4,573	15,149	14,671
Residential:				
Kansas City, MO (2)	(34)	168	58	594
Total Residential Segment	(34)	168	58	594
Total Net Operating Income	76,067	72,189	225,762	220,810
Reconciliation to income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates:				
Depreciation and amortization	(36,320)	(34,183)	(103,467)	(100,081)
Impairment of assets held for use	(2,429)	—	(2,429)	—
General and administrative expense	(12,212)	(8,882)	(27,983)	(24,369)
Interest expense	(24,390)	(23,338)	(71,840)	(69,385)
Interest and other income	1,505	1,624	5,253	4,289
Income from continuing operations before disposition of property, condominiums and investment in	$ 2,221	$ 7,410	$ 25,296	$ 31,264

unconsolidated affiliates and equity in earnings of unconsolidated affiliates

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(1) Net of discontinued operations.

(2) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs with little or no corresponding revenue.

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HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

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

14. Subsequent Events

On October 3, 2011, we repaid the remaining balance of $184.4 million of a secured mortgage loan bearing interest of 7.05% that was scheduled to mature in January 2012. We incurred no penalty related to this early repayment.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Balance Sheets

(Unaudited and in thousands, except unit and per unit amounts)

	September 30, 2011	December 31, 2010
Assets:		
Real estate assets, at cost:		
Land	$ 368,948	$ 345,088
Buildings and tenant improvements	3,115,149	2,883,092
Development in process	7,576	4,524
Land held for development	106,975	107,101
	3,598,648	3,339,805
Less-accumulated depreciation	(878,702)	(830,153)
Net real estate assets	2,719,946	2,509,652
For-sale residential condominiums	4,995	8,225
Real estate and other assets, net, held for sale	—	13,607
Cash and cash equivalents	11,023	14,198
Restricted cash	23,230	4,399
Accounts receivable, net of allowance of $3,581 and $3,595, respectively	23,443	20,716
Mortgages and notes receivable, net of allowance of $545 and $868, respectively	18,706	19,044
Accrued straight-line rents receivable, net of allowance of $1,366 and $2,209, respectively	102,338	93,178
Investment in and advances to unconsolidated affiliates	98,784	62,451
Deferred financing and leasing costs, net of accumulated amortization of $60,950 and $59,360, respectively	129,311	85,001
Prepaid expenses and other assets	38,896	40,200
Total Assets	$ 3,170,672	$ 2,870,671
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	$ 1,893,981	$ 1,522,945
Accounts payable, accrued expenses and other liabilities	127,664	106,716
Financing obligations	32,775	33,114
Total Liabilities	2,054,420	1,662,775
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 3,750,679 and 3,793,987 outstanding, respectively	105,995	120,838
Series A Preferred Units (liquidation preference $1,000 per unit), 29,077 and 29,092 shares issued and outstanding, respectively	29,077	29,092
Series B Preferred Units (liquidation preference $25 per unit), 0 and 2,100,000 shares issued and outstanding, respectively	—	52,500
Total Redeemable Operating Partnership Units	135,072	202,430
Equity:		
Common Units:		
	9,800	10,044

General partner Common Units, 759,213 and 750,757 outstanding, respectively		
Limited partner Common Units, 71,411,359 and 70,530,921 outstanding, respectively	970,363	994,610
Accumulated other comprehensive loss	(3,606)	(3,648)
Noncontrolling interests in consolidated affiliates	4,623	4,460
Total Equity	981,180	1,005,466
Total Liabilities, Redeemable Operating Partnership Units and Equity	$ 3,170,672	$ 2,870,671

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Income

(Unaudited and in thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental and other revenues	$ 122,086	$ 115,528	$ 354,122	$ 343,796
Operating expenses:				
Rental property and other expenses	45,951	43,339	128,378	122,776
Depreciation and amortization	36,320	34,183	103,467	100,081
Impairment of assets held for use	2,429	—	2,429	—
General and administrative	12,280	8,882	27,965	24,579
Total operating expenses	96,980	86,404	262,239	247,436
Interest expense:				
Contractual	23,356	22,020	68,727	65,527
Amortization of deferred financing costs	806	858	2,448	2,528
Financing obligations	228	460	665	1,330
	24,390	23,338	71,840	69,385
Other income:				
Interest and other income	1,505	1,709	5,277	4,374
Loss on debt extinguishment	—	(85)	(24)	(85)
	1,505	1,624	5,253	4,289
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	2,221	7,410	25,296	31,264
Gains on disposition of property	262	19	462	55
Gains/(losses) on for-sale residential condominiums	(476)	54	(322)	407
Gains on disposition of investment in unconsolidated affiliates	2,282	—	2,282	25,330
Equity in earnings of unconsolidated affiliates	1,113	1,033	3,945	2,705
Income from continuing operations	5,402	8,516	31,663	59,761
Discontinued operations:				
Income from discontinued operations	269	272	897	1,233
Net gains/(losses) on disposition of discontinued operations	2,573	—	2,573	(86)
	2,842	272	3,470	1,147
Net income	8,244	8,788	35,133	60,908
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(249)	148	(554)	(281)
Distributions on Preferred Units	(627)	(1,677)	(3,926)	(5,031)
Excess of preferred unit redemption/repurchase cost over carrying value	—	—	(1,895)	—
Net income available for common unitholders	$ 7,368	$ 7,259	$ 28,758	$ 55,596

Earnings per Common Unit – basic:								
Income from continuing operations available for common unitholders	$	0.06	$	0.10	$	0.33	$	0.72
Income from discontinued operations available for common unitholders		0.04		—		0.05		0.02
Net income available for common unitholders	$	0.10	$	0.10	$	0.38	$	0.74
Weighted average Common Units outstanding – basic		75,855		75,019		75,549		74,945
Earnings per Common Unit – diluted:								
Income from continuing operations available for common unitholders	$	0.06	$	0.10	$	0.33	$	0.72
Income from discontinued operations available for common unitholders		0.04		—		0.05		0.02
Net income available for common unitholders	$	0.10	$	0.10	$	0.38	$	0.74
Weighted average Common Units outstanding – diluted		75,993		75,229		75,718		75,128
Distributions declared per Common Unit	$	0.425	$	0.425	$	1.275	$	1.275
Net income available for common unitholders:								
Income from continuing operations available for common unitholders	$	4,526	$	6,987	$	25,288	$	54,449
Income from discontinued operations available for common unitholders		2,842		272		3,470		1,147
Net income available for common unitholders	$	7,368	$	7,259	$	28,758	$	55,596

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Equity

Nine Months Ended September 30, 2011 and 2010

(Unaudited and in thousands)

	Common Units				
	General Partner	Limited Partner	Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total
Balance at December 31, 2010	$ 10,044	$ 994,610	$ (3,648)	$ 4,460	$ 1,005,466
Issuance of Common Units, net	220	21,823	—	—	22,043
Distributions on Common Units	(962)	(95,235)	—	—	(96,197)
Distributions on Preferred Units	(39)	(3,887)	—	—	(3,926)
Share-based compensation expense	48	4,723	—	—	4,771
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(391)	(391)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	144	14,095	—	—	14,239
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(548)	—	554	—
Comprehensive income:					
Net income	351	34,782	—	—	35,133
Other comprehensive income	—	—	42	—	42
Total comprehensive income					35,175
Balance at September 30, 2011	$ 9,800	$ 970,363	$ (3,606)	$ 4,623	$ 981,180

	Common Units				
	General Partner	Limited Partner	Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total
Balance at December 31, 2009	$ 10,485	$ 1,038,328	$ (3,811)	$ 5,183	$ 1,050,185
Issuance of Common Units, net	21	2,055	—	—	2,076
Distributions on Common Units	(956)	(94,577)	—	—	(95,533)
Distributions on Preferred Units	(50)	(4,981)	—	—	(5,031)
Share-based compensation expense	51	5,009	—	—	5,060
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(506)	(506)
Adjustment of Redeemable Common Units to fair value and	61	6,071	—	—	6,132

contributions/distributions from/to the General Partner					
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3)	(278)	—	281	—
Comprehensive income:					
Net income	609	60,299	—	—	60,908
Other comprehensive income	—	—	836	—	836
Total comprehensive income					61,744
Balance at September 30, 2010	$ 10,218	$ 1,011,926	$ (2,975)	$ 4,958	$ 1,024,127

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities:		
Net income	$ 35,133	$ 60,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,594	100,728
Amortization of lease incentives and acquisition-related intangible assets and liabilities	1,347	807
Share-based compensation expense	4,771	5,060
Allowance for losses on accounts and accrued straight-line rents receivable	1,586	3,605
Amortization of deferred financing costs	2,448	2,528
Amortization of settled cash-flow hedges	(87)	262
Impairment of assets held for use	2,429	—
Loss on debt extinguishment	24	85
Net (gains)/losses on disposition of property	(3,035)	31
(Gains)/losses on for-sale residential condominiums	322	(407)
Gains on disposition of investment in unconsolidated affiliates	(2,282)	(25,330)
Equity in earnings of unconsolidated affiliates	(3,945)	(2,705)
Changes in financing obligations	(339)	103
Distributions of earnings from unconsolidated affiliates	3,382	2,887
Changes in operating assets and liabilities:		
Accounts receivable	(3,493)	(4,689)
Prepaid expenses and other assets	(542)	(177)
Accrued straight-line rents receivable	(9,280)	(8,477)
Accounts payable, accrued expenses and other liabilities	4,118	7,407
Net cash provided by operating activities	136,151	142,626
Investing activities:		
Additions to real estate assets and deferred leasing costs	(150,558)	(66,370)
Net proceeds from disposition of real estate assets	16,530	6,801
Net proceeds from disposition of for-sale residential condominiums	2,770	3,732
Proceeds from disposition of investment in unconsolidated affiliates	4,756	15,000
Distributions of capital from unconsolidated affiliates	1,304	1,591
Repayments of mortgages and notes receivable	338	231
Investment in and advances to unconsolidated affiliates	(39,665)	(907)
Changes in restricted cash and other investing activities	(15,598)	2,398
Net cash used in investing activities	(180,123)	(37,524)
Financing activities:		
Distributions on Common Units	(96,197)	(95,533)
Redemptions/repurchases of Preferred Units	(52,515)	—

Distributions on Preferred Units	(3,926)	(5,031)
Distributions to noncontrolling interests in consolidated affiliates	(391)	(506)
Net proceeds from the issuance of Common Units	22,043	2,076
Borrowings on revolving credit facility	285,400	4,000
Repayments of revolving credit facility	(150,400)	(4,000)
Borrowings on mortgages and notes payable	200,000	10,368
Repayments of mortgages and notes payable	(156,602)	(18,205)
Additions to deferred financing costs and other financing activities	(6,615)	(853)
Net cash provided by/(used in) financing activities	40,797	(107,684)
Net decrease in cash and cash equivalents	(3,175)	(2,582)
Cash and cash equivalents at beginning of the period	14,198	23,519
Cash and cash equivalents at end of the period	$ 11,023	$ 20,937

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows - Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash paid for interest, net of amounts capitalized	$ 69,321	$ 66,435

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Change in accrued capital expenditures	$ 3,707	$ 890
Write-off of fully depreciated real estate assets	$ 39,039	$ 34,703
Write-off of fully amortized deferred financing and leasing costs	$ 13,683	$ 11,521
Unrealized gains/(losses) on marketable securities of non-qualified deferred compensation plan	$ (354)	$ 489
Settlement of financing obligation	$ —	$ 4,184
Adjustment of Redeemable Common Units to fair value	$ (14,843)	$ (6,476)
Unrealized gain on tax increment financing bond	$ 129	$ 471
Mortgages receivable from seller financing	$ —	$ 17,030
Assumption of mortgages and notes payable related to acquisition activities	$ 192,367	$ 40,306

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements

September 30, 2011

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

(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

The Company is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership. At September 30, 2011, the Company and/or the Operating Partnership wholly owned: 302 in-service office, industrial and retail properties, comprising 29.2 million square feet; 96 rental residential units; 18 for-sale residential condominiums; 601 acres of undeveloped land suitable for future development, of which 523 acres are considered core holdings; and an additional office property that is considered completed but not yet stabilized.

The Company is the sole general partner of the Operating Partnership. At September 30, 2011, the Company owned all of the Preferred Units and 72.2 million, or 95.1%, of the Common Units. Limited partners (including one officer and two directors of the Company) own the remaining 3.8 million Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock, $.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the nine months ended September 30, 2011, the Company redeemed 43,308 Common Units for a like number of shares of Common Stock.

Common Stock Offering

We have entered into equity sales agreements with various financial institutions to offer and sell, from time to time, shares of our Common Stock by means of ordinary brokers' transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of the institutions. During the third quarter of 2011, we issued 142,000 shares of Common Stock under these agreements at an average price of $34.21 per share raising net proceeds, after sales commissions and expenses, of $4.8 million.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Our Consolidated Statements of Income for the three and nine months ended September 30, 2010 were revised from previously reported amounts to reflect those properties sold or held for sale which required discontinued operations presentation.

Our Consolidated Financial Statements include wholly owned subsidiaries and those entities in which we have the controlling financial interest. All significant intercompany transactions and accounts have been eliminated. At September 30, 2011 and December 31, 2010, we were not involved with any entities that were determined to be variable interest entities.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2010 Annual Report on Form 10-K.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

1. Description of Business and Significant Accounting Policies - Continued

Use of Estimates

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

Recently Issued Accounting Standards

Beginning with our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, we will be required to enhance our disclosure of assets and liabilities measured at fair value. This includes disclosing any significant transfers between Levels 1 and 2 of the fair value hierarchy, additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy and the hierarchy classification for items whose fair value is not recorded on our Consolidated Balance Sheets but is disclosed in our Notes to Consolidated Financial Statements. Additionally, we will be required to present comprehensive income on the face of our Consolidated Statements of Income, which previously has been disclosed in our Notes to Consolidated Financial Statements.

2. Real Estate Assets

Acquisitions

In the third quarter of 2011, we acquired a six-building, 1.54 million square foot office complex in Pittsburgh, PA for a purchase price of $188.5 million. The purchase price included the assumption of secured debt recorded at fair value of $124.5 million, with an effective interest rate of 4.27%, including amortization of deferred financing costs. This debt matures in November 2017. We expensed $4.0 million of costs related to this acquisition, which are included in general and administrative expense for the three and nine months ended September 30, 2011.

In the third quarter of 2011, we also acquired a 503,000 square foot office building in Atlanta, GA for a purchase price of $78.3 million. The purchase price included the assumption of secured debt recorded at fair value of $67.9 million, with an effective interest rate of 5.45%, including amortization of deferred financing costs. This debt matures in January 2014. We expensed $0.3 million of costs related to this acquisition, which are included in general and administrative expense for the three and nine months ended September 30, 2011.

The assets acquired and liabilities assumed were recorded at preliminary estimates of fair value as determined by management based on information available at the acquisition date and on current assumptions as to future operations. These estimates are subject to change during the measurement period upon the completion of acquisition accounting, including the finalization of asset valuations. The following table sets forth a summary of the preliminary acquisition purchase price consideration for each major class of assets acquired and liabilities assumed in the acquisitions discussed above:

	Total Purchase Price Consideration
Real estate assets	$ 241,602
Acquisition-related intangible assets (in deferred financing and leasing costs)	39,721
Furniture, fixtures and equipment (in prepaid expenses and other assets)	1,101
Acquisition-related intangible liabilities (in accounts payable, accrued expenses and other liabilities)	(15,627)
Total consideration	$ 266,797

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

2. Real Estate Assets - Continued

The following tables set forth our rental and other revenues and net income, adjusted for interest expense and depreciation and amortization related to purchase price allocation, assuming the acquisitions discussed above both occurred as of the beginning of each annual reporting period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proforma rental and other revenues	$ 133,669	$ 129,590	$ 393,640	$ 385,400
Proforma net income	$ 7,568	$ 8,180	$ 32,823	$ 59,124
Proforma earnings per share - basic	$ 0.09	$ 0.09	$ 0.34	$ 0.71
Proforma earnings per share - diluted	$ 0.09	$ 0.09	$ 0.34	$ 0.71

Dispositions

During the third quarter of 2011, we sold an office property and adjacent land parcel in one transaction in Winston-Salem, NC for gross proceeds of $15.0 million. We recorded gain on disposition of discontinued operations of $2.6 million and gain on disposition of property of $0.3 million related to the office property and land, respectively, in the third quarter of 2011.

Impairments

We recorded impairment of assets held for use of $2.4 million in the third quarter of 2011 on two office properties located in Orlando, FL due to a change in the assumed timing of future disposition. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future.

3. Mortgages and Notes Receivable

The following table sets forth our mortgages and notes receivable:

	September 30, 2011	December 31, 2010
Seller financing (first mortgages)	$ 17,180	$ 17,180
Less allowance	—	—
	17,180	17,180
Promissory notes	2,071	2,732
Less allowance	(545)	(868)
	1,526	1,864
Mortgages and notes receivable, net	$ 18,706	$ 19,044

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning notes receivable allowance	$ 617	$ 771	$ 868	$ 698
Bad debt expense	—	240	184	328
Write-offs	(1)	(6)	(365)	(11)
Recoveries/other	(71)	(55)	(142)	(65)
Total notes receivable allowance	$ 545	$ 950	$ 545	$ 950

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

3. Mortgages and Notes Receivable - Continued

Our mortgages and notes receivable consists primarily of seller financing issued in conjunction with two disposition transactions in the second quarter of 2010. As of September 30, 2011, the contractual payments on both mortgages receivable were current and there were no indications of impairment on the receivables.

4. Investment in and Advances to Unconsolidated Affiliates

We have equity interests of 50.0% or less in various joint ventures with unrelated third parties and a debt interest in one of those joint ventures, as described below. The following table sets forth the combined, summarized income statements for our unconsolidated joint ventures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Income Statements:				
Revenues	$ 24,618	$ 25,508	$ 72,576	$ 90,774
Expenses:				
Rental property and other expenses	10,239	12,096	31,765	43,751
Depreciation and amortization	6,437	6,364	18,736	23,005
Interest expense	5,802	5,907	17,310	21,311
Total expenses	22,478	24,367	67,811	88,067
Net income	$ 2,140	$ 1,141	$ 4,765	$ 2,707
Our share of:				
Depreciation and amortization of real estate assets	$ 2,028	$ 2,076	$ 6,078	$ 8,077
Interest expense	$ 1,944	$ 2,166	$ 6,093	$ 8,294
Net income	$ 448	$ 454	$ 2,142	$ 989
Our share of net income	$ 448	$ 454	$ 2,142	$ 989
Purchase accounting and management, leasing and other fees adjustments	665	579	1,803	1,716
Equity in earnings of unconsolidated affiliates	$ 1,113	$ 1,033	$ 3,945	$ 2,705

In the third quarter of 2011, our joint venture partner exercised its option to acquire our 10.0% equity interest in the HIW Development B, LLC joint venture, which recently completed construction of a build-to-suit office property in Charlotte, NC. As a result, we received gross proceeds of $4.8 million and recorded a gain on disposition of investment in unconsolidated affiliate related to this merchant build project of $2.3 million in the third quarter of 2011.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

5. Intangible Assets and Liabilities

The following table sets forth total intangible assets and liabilities, net of accumulated amortization:

	September 30, 2011	December 31, 2010
Assets:		
Deferred financing costs	$ 19,168	$ 16,412
Less accumulated amortization	(6,192)	(7,054)
	12,976	9,358
Deferred leasing costs (including lease incentives and acquisition-related intangible assets)	171,093	127,949
Less accumulated amortization	(54,758)	(52,306)
	116,335	75,643
Deferred financing and leasing costs, net	$ 129,311	$ 85,001
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related intangible liabilities	$ 16,455	$ 658
Less accumulated amortization	(425)	(125)
	$ 16,030	$ 533

The following table sets forth amortization of intangible assets and liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Amortization of deferred financing costs	$ 806	$ 858	$ 2,448	$ 2,528
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	$ 5,188	$ 3,912	$ 13,945	$ 11,495
Amortization of lease incentives (in rental and other revenues)	$ 368	$ 270	$ 1,009	$ 807
Amortization of acquisition-related intangible assets (in rental and other revenues)	$ 240	$ 200	$ 618	$ 318
Amortization of acquisition-related intangible liabilities (in rental and other revenues)	$ (229)	$ (27)	$ (280)	$ (69)

The following table sets forth scheduled future amortization of intangible assets and liabilities:

	Amortization of Deferred Financing Costs	Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and Amortization)	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Liabilities (in Rental and Other Revenues)
October 1, 2011 through December 31, 2011	$ 931	$ 6,263	$ 323	$ 271	$ (141)
2012	3,192	22,604	1,234	1,049	(556)
2013	2,956	17,849	1,080	802	(542)
2014	2,660	13,609	913	505	(467)
2015	2,064	9,950	695	335	(421)
Thereafter	1,173	35,214	2,536	1,103	(13,903)
	$ 12,976	$ 105,489	$ 6,781	$ 4,065	$ (16,030)

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

5. Intangible Assets and Liabilities - Continued

The weighted average remaining amortization periods for deferred financing costs, deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization), lease incentives (in rental and other revenues), acquisition-related intangible assets (in rental and other revenues) and acquisition-related intangible liabilities (in rental and other revenues) were 3.9 years, 6.4 years, 8.1 years, 5.8 years and 8.8 years, respectively, as of September 30, 2011.

In connection with the acquisitions of office properties in Atlanta, GA and Pittsburgh, PA in the third quarter of 2011, we recorded $1.6 million of above market lease intangible assets, $38.1 million of in-place lease intangible assets and $15.6 million of below market lease intangible liabilities with weighted average amortization periods of 5.4 years, 6.7 years and 8.8 years, respectively.

6. Mortgages and Notes Payable

The following table sets forth our consolidated mortgages and notes payable:

	September 30, 2011	December 31, 2010
Secured indebtedness	$ 937,846	$ 754,399
Unsecured indebtedness	956,135	768,546
Total mortgages and notes payable	$ 1,893,981	$ 1,522,945

At September 30, 2011, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of $1.5 billion.

In the third quarter of 2011, we obtained a new $475.0 million unsecured revolving credit facility, which replaced our previously existing $400.0 million revolving credit facility. Our new revolving credit facility is originally scheduled to mature on July 27, 2015. Assuming no defaults have occurred, we have an option to extend the maturity for an additional year. The new credit facility includes an accordion feature that allows for an additional $75.0 million of borrowing capacity subject to additional lender commitments. The interest rate on the new facility at our current credit ratings is LIBOR plus 150 basis points and the annual facility fee is 35 basis points. The interest rate and facility fee under the new facility are based on the higher of the publicly announced ratings from Moody’s Investors Service or Standard & Poor’s. The financial and other covenants under the new facility are substantially the same as our previous credit facility. There was $165.0 million and $347.0 million outstanding under our revolving credit facility at September 30, 2011 and October 20, 2011, respectively. At both September 30, 2011 and October 20, 2011, we had $0.2 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at September 30, 2011 and October 20, 2011 was $309.8 million and $127.8 million, respectively.

Our secured construction facility, which has $52.1 million outstanding at September 30, 2011, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points.

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

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

7. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At September 30, 2011, noncontrolling interests in consolidated affiliates relates to our joint venture partner's 50.0% interest in office properties located in Richmond, VA. Our joint venture partner is an unrelated third party.

8. Disclosure About Fair Value of Financial Instruments

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

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

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

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

We had no Level 2 assets or liabilities at both September 30, 2011 and December 31, 2010.

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

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

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

	September 30, 2011	Level 1	Level 3
Assets:			

Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	$ 2,919	$ 2,919	$ —
Tax increment financing bond (in prepaid expenses and other assets)	15,828	—	15,828
Impaired real estate assets	7,772	—	7,772
Total Assets	$ 26,519	$ 2,919	$ 23,600
Liability:			
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	$ 2,919	$ 2,919	$ —

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

8. Disclosure About Fair Value of Financial Instruments – Continued

	December 31, 2010	Level 1	Level 3
Assets:			
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	$ 3,479	$ 3,479	$ —
Tax increment financing bond (in prepaid expenses and other assets)	15,699	—	15,699
Total Assets	$ 19,178	$ 3,479	$ 15,699
Liability:			
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	$ 4,091	$ 4,091	$ —

The following table sets forth our Level 3 asset:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Asset:				
Tax Increment Financing Bond				
Beginning balance	$ 15,228	$ 17,017	$ 15,699	$ 16,871
Unrealized gain (in AOCL)	600	325	129	471
Ending balance	$ 15,828	$ 17,342	$ 15,828	$ 17,342

We own a tax increment financing bond associated with a property developed by us. This bond amortizes to maturity in 2020. The estimated fair value at September 30, 2011 was $2.4 million below the outstanding principal due on the bond. If the yield-to-maturity used to fair value this bond was 100 basis points higher or lower, the fair value of the bond would have been $0.6 million lower or higher, respectively, as of September 30, 2011. Currently, we intend to hold this bond and have concluded that we will not be required to sell this bond before recovery of the bond principal. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond in the three and nine months ended September 30, 2011 and 2010. There is no legal right of offset with the liability, which we report as a financing obligation, related to this tax increment financing bond.

The following table sets forth the carrying amounts and fair values of our financial instruments not disclosed elsewhere in this Quarterly Report on Form 10-Q:

	Carrying Amount	Fair Value
September 30, 2011		

Mortgages and notes receivable	$	18,706	$	19,094
Mortgages and notes payable	$	1,893,981	$	1,987,983
Financing obligations	$	32,775	$	21,252
December 31, 2010				
Mortgages and notes receivable	$	19,044	$	19,093
Mortgages and notes payable	$	1,522,945	$	1,581,518
Financing obligations	$	33,114	$	23,880

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

8. Disclosure About Fair Value of Financial Instruments – Continued

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

9. Share-Based Payments

During the nine months ended September 30, 2011, the Company granted 146,581 stock options with an exercise price equal to the closing market price of a share of its Common Stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted average grant date fair value per share of $6.47. During the nine months ended September 30, 2011, the Company also granted 76,966 shares of time-based restricted stock and 57,386 shares of total return-based restricted stock with weighted average grant date fair values per share of $33.70 and $41.02, respectively. We recorded stock-based compensation expense of $1.3 million and $1.6 million during the three months ended September 30, 2011 and 2010, respectively, and $4.8 million and $5.1 million during the nine months ended September 30, 2011 and 2010, respectively. At September 30, 2011, there was $6.9 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining service period of 2.2 years.

10. Comprehensive Income and Accumulated Other Comprehensive Loss

The following table sets forth the components of comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 8,244	$ 8,788	$ 35,133	$ 60,908
Other comprehensive income:				
Unrealized gain on tax increment financing bond	600	325	129	471
Amortization of settled cash-flow hedges	(30)	(25)	(87)	262
Sale of cash-flow hedge related to disposition of investment in unconsolidated affiliate	—	—	—	103
Total other comprehensive income	570	300	42	836
Total comprehensive income	$ 8,814	$ 9,088	$ 35,175	$ 61,744

The following table sets forth the components of accumulated other comprehensive loss (“AOCL”):

	September 30, 2011	December 31, 2010
Tax increment financing bond	$ 2,413	$ 2,543
Settled cash-flow hedges	1,193	1,105
Total accumulated other comprehensive loss	$ 3,606	$ 3,648

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

11. Discontinued Operations

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Rental and other revenues	$ 480	$ 535	$ 1,593	$ 3,092
Operating expenses:				
Rental property and other expenses	211	166	570	1,214
Depreciation and amortization	—	98	127	647
Total operating expenses	211	264	697	1,861
Other income	—	1	1	2
Income from discontinued operations	269	272	897	1,233
Net gains/(losses) on disposition of discontinued operations	2,573	—	2,573	(86)
Total discontinued operations	$ 2,842	$ 272	$ 3,470	$ 1,147

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

	September 30, 2011	December 31, 2010
Assets:		
Land	$ —	$ 2,788
Buildings and tenant improvements	—	12,707
Land held for development	—	2,766
Total real estate assets	—	18,261
Less accumulated depreciation	—	(5,012)
Net real estate assets	—	13,249
Deferred leasing costs, net	—	58
Accrued straight line rents receivable	—	257
Prepaid expenses and other assets	—	43
Real estate and other assets, net, held for sale	$ —	$ 13,607
Tenant security deposits, deferred rents and accrued costs (1)	$ —	$ 11

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

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

12. Earnings Per Unit

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Earnings per Common Unit - basic:				
Numerator:				
Income from continuing operations	$ 5,402	$ 8,516	$ 31,663	$ 59,761
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates from continuing operations	(249)	148	(554)	(281)
Distributions on Preferred Units	(627)	(1,677)	(3,926)	(5,031)
Excess of Preferred Unit redemption/repurchase cost over carrying value	—	—	(1,895)	—
Income from continuing operations available for common unitholders	4,526	6,987	25,288	54,449
Income from discontinued operations	2,842	272	3,470	1,147
Net income available for common unitholders	$ 7,368	$ 7,259	$ 28,758	$ 55,596
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	75,855	75,019	75,549	74,945
Earnings per Common Unit – basic:				
Income from continuing operations available for common unitholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common unitholders	0.04	—	0.05	0.02
Net income available for common unitholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74
Earnings per Common Unit - diluted:				
Numerator:				
Income from continuing operations	$ 5,402	$ 8,516	$ 31,663	$ 59,761
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates from continuing operations	(249)	148	(554)	(281)
Distributions on Preferred Units	(627)	(1,677)	(3,926)	(5,031)
Excess of Preferred Unit redemption/repurchase cost over carrying value	—	—	(1,895)	—
Income from continuing operations available for common unitholders	4,526	6,987	25,288	54,449
Income from discontinued operations	2,842	272	3,470	1,147
Net income available for common unitholders	$ 7,368	$ 7,259	$ 28,758	$ 55,596

Denominator:				
Denominator for basic earnings per Common Unit –weighted average units	75,855	75,019	75,549	74,945
Add:				
Units options using the treasury method	138	210	169	183
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	75,993	75,229	75,718	75,128
Earnings per Common Unit – diluted:				
Income from continuing operations available for common unitholders	$ 0.06	$ 0.10	$ 0.33	$ 0.72
Income from discontinued operations available for common unitholders	0.04	—	0.05	0.02
Net income available for common unitholders	$ 0.10	$ 0.10	$ 0.38	$ 0.74

(1) There were 0.4 million and 0.7 million options outstanding during the three months ended September 30, 2011 and 2010, respectively, and 0.3 million and 0.7 million options outstanding during the nine months ended September 30, 2011 and 2010, respectively, that were not included in the computation of diluted earnings per share because the impact of including such options would be anti-dilutive.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

13. Segment Information

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Rental and Other Revenues: (1)				
Office:				
Atlanta, GA	$ 13,045	$ 11,869	$ 37,290	$ 36,066
Greenville, SC	3,617	3,312	10,560	10,439
Kansas City, MO	3,559	3,673	10,801	11,044
Memphis, TN	10,270	9,692	30,450	24,888
Nashville, TN	15,598	14,598	45,576	44,562
Orlando, FL	2,677	2,920	7,614	8,985
Piedmont Triad, NC	4,914	5,270	15,549	16,034
Pittsburgh, PA	1,582	—	1,582	—
Raleigh, NC	20,051	18,843	59,472	56,174
Richmond, VA	13,378	12,209	36,431	35,485
Tampa, FL	17,776	17,830	52,026	53,807
Total Office Segment	106,467	100,216	307,351	297,484
Industrial:				
Atlanta, GA	3,976	3,660	11,938	11,477
Piedmont Triad, NC	3,151	3,259	8,955	9,324
Total Industrial Segment	7,127	6,919	20,893	20,801
Retail:				
Kansas City, MO	8,492	8,105	25,594	24,542
Total Retail Segment	8,492	8,105	25,594	24,542
Residential:				
Kansas City, MO	—	288	284	969
Total Residential Segment	—	288	284	969
Total Rental and Other Revenues	$ 122,086	$ 115,528	$ 354,122	$ 343,796

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

13. Segment Information – Continued

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Operating Income: (1)				
Office:				
Atlanta, GA	$ 8,059	$ 7,388	$ 23,518	$ 22,870
Greenville, SC	2,099	1,858	6,238	6,313
Kansas City, MO	2,025	2,159	6,249	6,705
Memphis, TN	5,703	5,506	16,919	15,026
Nashville, TN	10,257	9,488	30,225	29,450
Orlando, FL	1,379	1,554	3,830	4,896
Piedmont Triad, NC	2,898	3,486	9,945	10,586
Pittsburgh, PA	897	—	897	—
Raleigh, NC	13,918	12,527	41,391	38,241
Richmond, VA	7,776	7,631	23,856	24,008
Tampa, FL	11,013	10,900	32,192	32,742
Total Office Segment	66,024	62,497	195,260	190,837
Industrial:				
Atlanta, GA	2,861	2,492	8,698	8,063
Piedmont Triad, NC	2,253	2,459	6,582	6,840
Total Industrial Segment	5,114	4,951	15,280	14,903
Retail:				
Kansas City, MO	5,031	4,573	15,146	14,685
Total Retail Segment	5,031	4,573	15,146	14,685
Residential:				
Kansas City, MO (2)	(34)	168	58	595
Total Residential Segment	(34)	168	58	595
Total Net Operating Income	76,135	72,189	225,744	221,020
Reconciliation to income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates:				
Depreciation and amortization	(36,320)	(34,183)	(103,467)	(100,081)
Impairment of assets held for use	(2,429)	—	(2,429)	—
General and administrative expense	(12,280)	(8,882)	(27,965)	(24,579)
Interest expense	(24,390)	(23,338)	(71,840)	(69,385)
Interest and other income	1,505	1,624	5,253	4,289
Income from continuing operations before disposition of property, condominiums and investment in	$ 2,221	$ 7,410	$ 25,296	$ 31,264

unconsolidated affiliates and equity in earnings of unconsolidated affiliates

(1) Net of discontinued operations.

(2) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs with little or no corresponding revenue.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

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

14. Subsequent Events

On October 3, 2011, we repaid the remaining balance of $184.4 million of a secured mortgage loan bearing interest of 7.05% that was scheduled to mature in January 2012. We incurred no penalty related to this early repayment.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. At September 30, 2011, we owned or had an interest in 337 in-service office, industrial and retail properties, encompassing approximately 34.5 million square feet, which includes one completed but not yet stabilized office property aggregating 117,000 square feet, one office property under development aggregating 60,000 square feet and a 12.5% interest in a 261,000 square foot office property directly owned by the Company (included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements); 18 for-sale residential condominiums and 96 rental residential units. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Mississippi, Missouri, North Carolina, Pennsylvania, South Carolina, Tennessee and Virginia. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

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

Disclosure Regarding Forward-Looking Statements

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Business." You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- the financial condition of our customers could deteriorate;
- we may not be able to lease or release second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to customer demand;
- our markets may suffer declines in economic growth;

- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

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This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in the section entitled “Item 1A. Risk Factors” set forth in our Quarterly Report on Form 10-Q for the three months ended June 30, 2011. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

Executive Summary

Our Strategic Plan focuses on:

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

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

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

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases signed are higher or lower than the rents under the previous leases. The annualized rental revenues from second generation leases signed during any particular year is generally less than 15% of our total annual rental revenues. During the third quarter of 2011, we leased 1.1 million square feet of second generation office space, defined as space previously occupied under our ownership that becomes available for lease, with a weighted average term of 5.4 years. On average, tenant improvements for such leases were $13.31 per square foot, lease commissions were $3.43 per square foot and rent concessions were $3.65 per square foot. GAAP base rents under such leases were $18.28 per square foot, or 1.4% higher than under previous leases.

We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby customers that account for more than 3% of our revenues are periodically reviewed with the Company's Board of Directors. Currently, no customer accounts for more than 3% of our annualized revenues other than the federal government, which accounts for 8.9% of our annualized revenues, and AT&T, which accounts for 3.3% of our annualized revenues.

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

We anticipate commencing up to $50.0 million of new development in the remainder of 2011. Any such projects would not be placed in service until 2012 or beyond. We also anticipate selling up to $75.0 million of non-core properties in the remainder of 2011. We intend to maintain a conservative and flexible balance sheet that allows us to capitalize on favorable development and acquisition opportunities as they arise. As of September 30, 2011, our mortgages and notes payable represented 46.8% of the undepreciated book value of our total assets.

Results of Operations

Results for the three and nine months ended September 30, 2010 were revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale subsequent to that date which required discontinued operations presentation.

Three Months Ended September 30, 2011 and 2010

Rental and Other Revenues

Rental and other revenues from continuing operations were 5.7% higher in the third quarter of 2011 compared to the third quarter of 2010 due to a $4.4 million contribution from recently acquired properties and new developments recently placed in service and $2.2 million from our same property portfolio (those assets owned from January 1, 2010 to September 30, 2011). Rental and other revenues from continuing operations of our same property portfolio were higher primarily due to an improvement in same property average occupancy of 90.2% during the third quarter of 2011 compared to 89.5% during the third quarter of 2010. We expect rental and other revenues for the remainder of 2011, adjusted for any discontinued operations and additional acquisition activities, to be higher compared to the same period in 2010 primarily due to contribution from recently acquired properties, particularly Riverwood 100 in Atlanta and PPG Place in Pittsburgh.

Operating Expenses

Rental property and other expenses were 6.2% higher in the third quarter of 2011 compared to the third quarter of 2010 due to a $2.0 million contribution from recently acquired properties new developments recently placed in service. Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, was lower at 62.3% in the third quarter of 2011 compared to 62.5% in the third quarter of 2010. We expect rental property and other expenses for the remainder of 2011, adjusted for any discontinued operations and additional acquisition activities, to be higher compared to the same period in 2010 primarily due to recent development and acquisition activities.

Depreciation and amortization was 6.3% higher in the third quarter of 2011 compared to the third quarter of 2010 primarily due to recent acquisition and development activities. We expect depreciation expense for the remainder of 2011, adjusted for any discontinued operations and additional acquisition activity, to be similarly higher.

Impairment of assets held for use was $2.4 million in the third quarter of 2011 resulting from a change in the assumed timing of future disposition of two office properties located in Orlando, FL. There was no impairment of assets held for use in the third quarter of 2010. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future.

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General and administrative expenses were $3.3 million higher in the third quarter of 2011 compared to the third quarter of 2010 primarily due to acquisition costs relating to our Riverwood 100 and PPG Place acquisitions and dead deal costs relating to the termination of a proposed Kansas City office project that were expensed in the third quarter of 2011, partly offset by lower deferred compensation expense caused by an decreased value of the marketable securities held under our deferred compensation plan. We expect general and administrative expenses for the remainder of 2011, adjusted for changes in deferred compensation expense caused by changes in the value of marketable securities held under our deferred compensation plan, to be lower than the same period in 2010 primarily due to management's continuing efforts to reduce general and administrative expenses. Changes in the value of marketable securities are fully offset in other income and therefore do not impact net income.

Interest Expense

Interest expense was 4.5% higher in the third quarter of 2011 compared to the third quarter of 2010 primarily due to higher average debt balances from the assumption of debt with respect to our acquisition activities, partly offset by lower average interest rates. We expect interest expense for the remainder of 2011, adjusted for any additional acquisition activities, to be relatively unchanged from the same period in 2010 as the higher average debt balances will be offset by lower average interest rates from the early repayment of a secured mortgage loan bearing interest at 7.05% in the fourth quarter of 2011.

Gains on Disposition of Investment in Unconsolidated Affiliates

Gains on disposition of investment in unconsolidated affiliates were $2.3 million higher in the third quarter of 2011 as compared to the third quarter of 2010 due to our joint venture partner exercising its option to acquire our 10.0% unconsolidated equity interest in the HIW Development B, LLC joint venture, which recently completed construction of a build-to-suit office property in Charlotte, NC.

Discontinued Operations

Discontinued operations were $2.6 million higher in the third quarter of 2011 as compared to the third quarter of 2010 due primarily to the gain recorded on disposition of an office property in Winston-Salem, NC in the third quarter of 2011.

Dividends on Preferred Stock

Dividends on preferred stock were $1.1 million lower in the third quarter of 2011 as compared to the third quarter of 2010 due to the redemption of our remaining 8.0% Series B Cumulative Redeemable Preferred Shares in the second quarter of 2011.

Nine Months Ended September 30, 2011 and 2010

Rental and Other Revenues

Rental and other revenues from continuing operations were 3.0% higher in the nine months ended September 30, 2011 as compared to the same period in 2010 due to a $9.3 million contribution from recently acquired properties and developments recently placed in service and $1.1 million higher revenue in our same property portfolio revenue. Our same property portfolio revenue increased due to an increase in same property average occupancy to 90.2% for the nine months ended September 30, 2011 from 89.6% for the nine months ended September 30, 2010 and lower allowance for losses on accounts and accrued straight-line rents receivable, partly offset by lower termination fees and lower cost recovery income.

Operating Expenses

Rental property and other expenses were 4.4% higher in the nine months ended September 30, 2011 as compared to the same period in 2010 due to a $3.9 million contribution from recently acquired properties and developments recently placed in service and $1.5 million increase in our same property portfolio operating expenses from higher real estate taxes and utilities. Operating margin was lower at 63.8% in the nine months ended September 30, 2011 as compared to 64.2% in the same period in 2010.

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Depreciation and amortization was 3.4% higher in the nine months ended September 30, 2011 as compared to the same period in of 2010 primarily due to recent acquisition and development activities.

Impairment of assets held for use was $2.4 million in the nine months ended September 30, 2011 due an impairment charge recorded in the third quarter of 2011 resulting from a change in the assumed timing of future disposition of two office properties located in Orlando, FL. There was no impairment of assets held for use in the nine months ended September 30, 2010. Impairments can arise from a number of factors; accordingly, there can be no assurances that we will not be required to record additional impairment charges in the future.

General and administrative expenses were $3.6 million higher in the nine months ended September 30, 2011 as compared to the same period in 2010 primarily due to higher acquisition and dead deal costs, partly offset by lower deferred compensation expense caused by an decreased value of the marketable securities held under our deferred compensation plan.

Interest Expense

Interest expense was 3.5% higher in the nine months ended September 30, 2011 as compared to the same period in 2010 primarily due to higher average debt balances with respect to our acquisition activities, partly offset by lower average interest rates.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was $1.2 million higher in the nine months ended September 30, 2011 as compared to the same period in 2010 due primarily to a one-time additional tax increment financing income recorded by one of our unconsolidated joint ventures.

Gains on Disposition of Investment in Unconsolidated Affiliates

Gains on disposition of investment in unconsolidated affiliates were $23.0 million lower in the nine months ended September 30, 2011 as compared to the same period in 2010 due to the disposition of our equity interests in a series of unconsolidated joint ventures relating to properties in Des Moines, IA in the second quarter of 2010, offset by the disposition of our interest in HIW Development B, LLC in the third quarter of 2011. This also resulted in a corresponding reduction in net income attributable to noncontrolling interests in the Operating Partnership.

Discontinued Operations

Discontinued operations were $2.3 million higher in the nine months ended September 30, 2011 as compared to the same period in 2010 due primarily to the gain recorded on disposition of an office property in Winston-Salem, NC in the third quarter of 2011.

Excess of preferred stock redemption/repurchase cost over carrying value

Excess of preferred stock redemption/repurchase cost over carrying value was $1.9 million higher in the nine months ended September 30, 2011 as compared to the same period in 2010 due to the redemption of our remaining Series B Preferred Shares in the second quarter of 2011.

Dividends on Preferred Stock

Dividends on preferred stock were $1.1 million lower in the nine months ended September 30, 2011 as compared to the same period in 2010 due to the redemption of our remaining Series B Preferred Shares in the second quarter of 2011.

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Liquidity and Capital Resources

Overview

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

Statements of Cash Flows

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

	Nine Months Ended September 30,		
	2011	2010	Change
Net cash provided by operating activities	$ 136,125	$ 142,654	$ (6,529)
Net cash used in investing activities	(180,123)	(37,526)	(142,597)
Net cash provided by/(used in) financing activities	40,880	(107,858)	148,738
Total net cash flows	$ (3,118)	$ (2,730)	$ (388)

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

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

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

The change in net cash provided by operating activities in the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to lower cost recovery income and termination fees and higher acquisition costs, partly offset by lower payments of incentive compensation and higher base rents.

The change in net cash used in investing activities in the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to higher acquisition activities and advances to unconsolidated affiliates and lower proceeds from disposition of unconsolidated affiliates, offset by higher proceeds from dispositions of wholly owned properties.

The change in net cash used in financing activities in the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to higher proceeds from the issuance of Common Stock, higher net borrowings on our revolving credit facility and mortgages and notes payable, partly offset by redemptions of Preferred Stock.

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Capitalization

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

	September 30, 2011	December 31, 2010
Mortgages and notes payable, at recorded book value	$ 1,893,981	$ 1,522,945
Financing obligations	$ 32,775	$ 33,114
Preferred Stock, at liquidation value	$ 29,077	$ 81,592
Common Stock outstanding	72,579	71,690
Common Units outstanding (not owned by the Company)	3,751	3,794
Per share stock price at period end	$ 28.26	$ 31.85
Market value of Common Stock and Common Units	$ 2,157,086	$ 2,404,165
Total market capitalization with debt and obligations	$ 4,112,919	$ 4,041,816

At September 30, 2011, our mortgages and notes payable represented 46.1% of our total market capitalization and were comprised of $937.9 million of secured indebtedness with a weighted average interest rate of 5.81% and $956.1 million of unsecured indebtedness with a weighted average interest rate of 4.77%. Also, our outstanding mortgages and notes payable and financing obligations were secured by real estate assets with an aggregate undepreciated book value of $1.5 billion.

Current and Future Cash Needs

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our existing revolving credit facility (which had $127.8 million of availability at October 20, 2011). Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities, together with borrowings under our credit facilities, will be adequate to meet our short-term liquidity requirements.

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

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

- cash flow from operating activities;
- borrowings under our credit facilities;

- the issuance of unsecured debt;
- the issuance of secured debt;
- the issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

Recent Acquisition and Disposition Activity

In the third quarter of 2011, we acquired a six-building, 1.54 million square foot office complex in Pittsburgh, PA for a purchase price of $188.5 million. The purchase price included the assumption of secured debt recorded at fair value of $124.5 million, with an effective interest rate of 4.27%, including amortization of deferred financing costs. This debt matures in November 2017. We expensed $4.0 million of costs related to this acquisition. We expect to incur an additional $25.2 million of planned building improvements and future tenant improvements committed under existing leases.

In the third quarter of 2011, we also acquired a 503,000 square foot office building in Atlanta, GA for a purchase price of $78.3 million. The purchase price included the assumption of secured debt recorded at fair value of $67.9 million, with an effective interest rate of 5.45%, including amortization of deferred financing costs. This debt matures in January 2014. We expensed $0.3 million of costs related to this acquisition. We expect to incur an additional $8.0 million of planned building improvements and future tenant improvements committed under existing leases.

Based on the total anticipated investment of $300.0 million, the weighted average capitalization rate for these acquisitions is 8.9% using projected full year 2012 GAAP net operating income. This forward-looking statement is subject to risks and uncertainties. See “Disclosure Regarding Forward-Looking Statements.”

During the third quarter of 2011, we sold an office property and adjacent land parcel in one transaction in Winston-Salem, NC for gross proceeds of $15.0 million. We recorded gain on disposition of discontinued operations of $2.6 million and gain on disposition of property of $0.3 million related to the office property and land, respectively, in the third quarter of 2011.

Financing Activity

During the second quarter of 2011, we entered into separate ATM Equity OfferingSM Sales Agreements (the “Sales Agreements”) with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mitsubishi UFJ Securities (USA), Inc., Morgan Keegan & Company, Inc. and RBC Capital Markets, LLC (each, an “Agent” and, together, the “Agents”). Under the terms of the Sales Agreements, the Company may offer and sell shares of its Common Stock from time to time through the Agents, acting as agents of the Company or as principals. Sales of the Shares, if any, may be made by means of ordinary brokers’ transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of the Agents. Subject to the terms and conditions of each Sales Agreement, each Agent will use its commercially reasonable efforts to sell on the Company's behalf any Shares to be offered by the Company under that Sales Agreement.

In the third quarter of 2011, we issued 142,000 shares of Common Stock in at-the-market transactions through Merrill Lynch, Pierce, Fenner & Smith Incorporated at an average price of $34.21 per share raising net proceeds, after sales commissions and expenses, of $4.8 million. We paid $0.1 million in sales commissions to Merrill Lynch, Pierce, Fenner & Smith Incorporated during the third quarter of 2011.

In the third quarter of 2011, we obtained a new $475.0 million unsecured revolving credit facility, which replaced our previously existing $400.0 million revolving credit facility. Our new revolving credit facility is originally scheduled to mature on July 27, 2015. Assuming no defaults have occurred, we have an option to extend the maturity for an additional year. The new credit facility includes an accordion feature that allows for an additional $75.0 million of borrowing capacity subject to additional lender commitments. The interest rate on the new facility at our current credit ratings is LIBOR plus 150 basis points and the annual facility fee is 35 basis points. The interest rate and facility fee under the new facility are based on the higher of the publicly announced ratings from Moody’s Investors Service or Standard & Poor’s. The financial and other covenants under the new facility are substantially the same as our previous credit facility. There was $165.0 million and $347.0 million outstanding under our revolving credit facility at September 30, 2011 and October 20, 2011, respectively. At both September 30, 2011 and October 20, 2011, we had $0.2 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at September 30, 2011 and October 20, 2011 was $309.8 million and $127.8 million, respectively.

Our secured construction facility, which has $52.1 million outstanding at September 30, 2011, is scheduled to mature on December 20, 2011. Assuming no defaults have occurred, we have the option to extend the maturity date for an additional one-year period. The interest rate is LIBOR plus 85 basis points.

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On October 3, 2011, we repaid the remaining balance of $184.4 million of a secured mortgage loan bearing interest of 7.05% that was scheduled to mature in January 2012. We incurred no penalty related to this early repayment.

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

Covenant Compliance

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

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

The Operating Partnership has $391.1 million carrying amount of 2017 bonds outstanding and $200.0 million carrying amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

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

Off Balance Sheet Arrangements

In the third quarter of 2011, our joint venture partner exercised its option to acquire our 10.0% unconsolidated equity interest in the HIW Development B, LLC joint venture, which recently completed construction of a build-to-suit office property in Charlotte, NC. As a result, we received gross proceeds of $4.8 million and recorded a gain on disposition of investment in unconsolidated affiliate of $2.3 million in the third quarter of 2011.

There were no other significant changes to our off balance sheet arrangements in the three months ended September 30, 2011. For information regarding our off balance sheet arrangements at December 31, 2010, see Note 9 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K.

Critical Accounting Estimates

There were no changes made by management to the critical accounting policies in the nine months ended September 30, 2011. For a description of our critical accounting estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" in our 2010 Annual Report on Form 10-K.

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Non-GAAP Information

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

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

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

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

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

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount	Per Share
Funds from operations:								
Net income	$ 8,244		$ 8,773		$ 35,121		$ 60,904	
Net (income) attributable to noncontrolling interests in the Operating Partnership	(366)		(366)		(1,496)		(2,819)	
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(249)		148		(554)		(281)	
Dividends on Preferred Stock	(627)		(1,677)		(3,926)		(5,031)	
Excess of Preferred Stock redemption/repurchase cost over carrying value	—		—		(1,895)		—	
Net income available for common stockholders	7,002	$ 0.10	6,878	$ 0.10	27,250	$ 0.38	52,773	$ 0.74
Add/(Deduct):								
Depreciation and amortization of real estate assets	35,803	0.46	33,739	0.44	102,057	1.34	98,790	1.30
(Gains) on disposition of depreciable properties	—	—	(19)	—	—	—	(55)	—
(Gains) on disposition of investment in unconsolidated affiliates (1)	—	—	—	—	—	—	(25,330)	(0.34)
Net income attributable to noncontrolling interests in the Operating Partnership	366	—	366	—	1,496	—	2,819	—
Unconsolidated affiliates:								
Depreciation and amortization of real estate assets	2,066	0.03	2,115	0.03	6,192	0.08	8,193	0.11
Discontinued operations:								
Depreciation and amortization of real estate assets	—	—	98	—	127	—	647	0.01
(Gains) on disposition of depreciable properties	(2,573)	(0.03)	—	—	(2,573)	(0.03)	(174)	—
Funds from operations	$ 42,664	$ 0.56	$ 43,177	$ 0.57	$ 134,549	$ 1.77	$ 137,663	$ 1.82
Weighted average Common Shares outstanding (2)	76,402		75,638		76,127		75,537	

(1)

We recorded a gain on disposition of investment in unconsolidated affiliate of $2.3 million in the third quarter of 2011. This gain was not deducted in our calculation of FFO as it represents a gain on sale of our interest in undepreciated property incidental to our primary business.

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

In addition, the Company believes net operating income from continuing operations ("NOI") and same property NOI are beneficial to management and investors and are important indicators of the performance of any equity REIT. Management believes that NOI is a useful supplemental measure of the Company's property operating performance because it provides a performance measure of the revenues and expenses directly involved in owning real estate assets and provides a perspective not immediately apparent from net income or FFO. The Company defines NOI as rental and other revenues from continuing operations, less rental property and other expenses from continuing operations. The Company defines same property NOI as NOI for the Company's in-service properties that were wholly-owned during the entirety of the periods presented (from January 1, 2010 to September 30, 2011). Other REITs may use different methodologies to calculate NOI and same property NOI and accordingly the Company's NOI and same property NOI may not be comparable to other REITs.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	$ 2,221	$ 7,410	$ 25,296	$ 31,264
Other income	(1,505)	(1,624)	(5,253)	(4,289)
Interest expense	24,390	23,338	71,840	69,385
General and administrative expense	12,212	8,882	27,983	24,369
Impairment of assets held for use	2,429	—	2,429	—
Depreciation and amortization expense	36,320	34,183	103,467	100,081
Net operating income from continuing operations	76,067	72,189	225,762	220,810
Less – non same property and other net operating income	5,571	3,224	13,329	7,992
Total same property net operating income from continuing operations	$ 70,496	$ 68,965	$ 212,433	$ 212,818
Rental and other revenues	$ 122,086	$ 115,528	$ 354,122	$ 343,796
Rental property and other expenses	46,019	43,339	128,360	122,986
Total net operating income from continuing operations	76,067	72,189	225,762	220,810
Less – non same property and other net operating income	5,571	3,224	13,329	7,992
Total same property net operating income from continuing operations	$ 70,496	$ 68,965	$ 212,433	$ 212,818
Total same property net operating income from continuing operations	$ 70,496	$ 68,965	$ 212,433	$ 212,818
Less – straight line rent and lease termination fees	2,269	3,170	8,286	9,206
Same property cash net operating income from continuing operations	$ 68,227	$ 65,795	$ 204,147	$ 203,612

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. Actual future results may differ materially from those presented.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Our debt consists of secured and unsecured long-term financings, unsecured debt securities, loans and credit facilities, which typically bear interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes.

At September 30, 2011, we had $1,284.8 million of fixed rate debt outstanding. The estimated aggregate fair market value of this debt at September 30, 2011 was $1,376.5 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt at September 30, 2011 would have been approximately $14.4 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt at September 30, 2011 would have been approximately $14.9 million higher.

At September 30, 2011, we had $609.4 million of variable rate debt outstanding. The estimated aggregate fair market value of this debt at September 30, 2011 was $611.5 million. If the weighted average interest rate on this variable rate debt had been 100 basis points higher at September 30, 2011, the aggregate fair market value of our variable rate debt at September 30, 2011 would have decreased by approximately $20.5 million. If the weighted average interest rate on this variable rate debt had been 100 basis points lower at September 30, 2011, the aggregate fair market value of our variable rate debt at September 30, 2011 would have increased by approximately $21.5 million.

We have no outstanding hedge contracts at September 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES

SEC rules require us to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's CEO and CFO have concluded that the disclosure controls and procedures of the Company and the Operating Partnership were each effective at the end of the period covered by this Quarterly Report.

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles. There were no changes in internal control over financial reporting during the three months ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in internal control over financial reporting during the three months ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITES AND USE OF PROCEEDS

During the third quarter of 2011, the Company issued an aggregate of 24,571 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Third Amended and Restated Credit Agreement, dated as of July 27, 2011, by and among the Company, the Operating Partnership and the Subsidiaries named therein and the Lenders named therein (filed as part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011)
10.2	Amendment No. 1, dated as of July 27, 2011, to Credit Agreement, dated as of February 2, 2011, by and among the Company, the Operating Partnership and the Subsidiaries named therein and the Lenders named therein (filed as part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011)
12.1	Statement re: Computation of Ratios of the Company
12.2	Statement re: Computation of Ratios of the Operating Partnership
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.3	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
31.4	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
32.1	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.2	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company

32.3	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
32.4	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

Highwoods Properties, Inc.

By: /s/ Terry L. Stevens
Terry L. Stevens
Senior Vice President and Chief
Financial Officer

Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc., its sole general partner

By: /s/ Terry L. Stevens
Terry L. Stevens
Senior Vice President and Chief
Financial Officer

Date: October 27, 2011