HIGHWOODS PROPERTIES INC
Form 10-K
February 11, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from________ to___________

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

Maryland	1-13100	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)

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

Title of Each Class Name of Each

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

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

NONE

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of such registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 aggregate market value of shares of Common Stock of Highwoods Properties, Inc. held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on June 30, 2009 was approximately $1.6 billion. At February 3, 2010, there were 71,363,500 shares of Common Stock outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Highwoods Properties, Inc. to be filed in connection with its Annual Meeting of Stockholders to be held May 13, 2010 are incorporated by reference in Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

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PART I

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

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

ITEM 1. BUSINESS

General

We are one of the largest owners and operators of suburban office, industrial and retail properties in the Southeastern and Midwestern United States. At December 31, 2009, we:

- wholly owned 307 in-service office, industrial and retail properties, encompassing approximately 27.8 million rentable square feet, and 96 rental residential units;

- owned an interest (50.0% or less) in 70 in-service office and industrial properties, encompassing approximately 7.8 million rentable square feet, one office property under development, 53 acres of development land and 418 rental residential units, including a 12.5% interest in a 261,000 square foot office property owned directly by the Company and thus is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements. Five of these in-service office properties, encompassing 618,000 rentable square feet, are consolidated as more fully described in Notes 3, 7 and 9 to our Consolidated Financial Statements;

- wholly owned 581 acres of undeveloped land, approximately 490 acres of which are considered core holdings, defined as properties expected to be held indefinitely, and which are suitable to develop approximately 7.9 million rentable square feet of office and industrial space;

- were developing three wholly owned properties comprising approximately 0.5 million square feet that were recently completed but had not achieved stabilization; and

- owned 40 for-sale residential condominiums through a consolidated, majority-owned joint venture.

At December 31, 2009, the Company owned all of the Preferred Units and 70.9 million, or 94.8%, of the Common Units. Limited partners (including one officer and two directors of the Company) own the remaining 3.9 million Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for

the 10 trading days immediately preceding the notice date of such redemption provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable.

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

Our business is the operation, acquisition and development of rental real estate properties. We operate office, industrial, retail and residential properties. There are no material inter-segment transactions. See Note 18 to our Consolidated Financial Statements for a summary of the rental and other revenues, net operating income and assets for each reportable segment.

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

During 2009, the Company filed unqualified Section 303A certifications with the NYSE. The Company and the Operating Partnership have also filed the CEO and CFO certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Annual Report.

Customers

The following table sets forth information concerning the 20 largest customers of our Wholly Owned Properties at December 31, 2009:

Customer	Rental Square Feet	Annualized Cash Rental Revenue (1) (in thousands)	Percent of Total Annualized Cash Rental Revenue (1)	Weighted Average Remaining Lease Term in Years
Federal Government	1,901,654	$ 38,750	8.89%	8.1
AT&T	768,579	14,678	3.37	4.2
PricewaterhouseCoopers	400,178	11,531	2.65	2.7
State of Georgia	375,105	8,222	1.89	7.5
Healthways	290,689	7,490	1.72	12.5
T-Mobile USA	207,517	6,047	1.39	3.9
Metropolitan Life Insurance	296,595	5,953	1.37	8.0
BB&T	267,463	4,541	1.04	3.6
Lockton Companies	160,561	4,424	1.02	5.2
Syniverse Technologies, Inc.	198,750	4,201	0.96	6.8
RBC Bank	164,271	4,084	0.94	17.0
Fluor Enterprises, Inc.	209,474	3,763	0.86	2.1
SCI Services	162,784	3,641	0.84	7.6
HCA Corporation	180,164	3,620	0.83	4.5
Volvo	249,136	3,354	0.77	4.5
	181,794	3,078	0.71	5.7

Jacob's Engineering Group, Inc.				
Vanderbilt University	144,611	3,056	0.70	5.8
Wells Fargo/Wachovia	125,995	3,013	0.69	1.6
Lifepoint Corporate Services	139,625	2,894	0.66	1.6
Icon Clinical Research	102,647	2,492	0.57	2.0
Total	6,527,592	$ 138,832	31.87%	6.4

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2009 multiplied by 12.

Business and Operating Strategy

Our Strategic Plan focuses on:

- owning high-quality, differentiated real estate assets in the best submarkets in our primary markets; and
- maintaining a conservative, flexible balance sheet with ample liquidity to meet our funding needs.

Execution of our Plan includes (1) growing net operating income at our existing properties through concentrated leasing, asset management and customer service efforts and (2) developing properties in infill locations and acquiring strategic properties that are accretive to long-term earnings and stockholder value. 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 in Florida, Georgia, North Carolina and Tennessee is and will continue to be an important determinative factor in predicting our future operating results. Our portfolio has changed significantly over the past five years and now consists of a higher mix of Class A and B properties, which are generally expected to outperform competitive properties in our core markets. We have repositioned our portfolio primarily by selling non-core properties and developing properties in in-fill locations. Our real estate professionals are seasoned and cycle-tested. Our senior leadership team has significant experience and maintains important relationships with market participants in each of our primary markets. Our focus in 2010 is to lease and operate our existing portfolio as effectively and efficiently as possible and acquire and develop additional real estate assets that improve the overall quality of our portfolio and generate attractive returns over the long-term for our stockholders.

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

Capital Recycling Program. Our strategy has been to focus our real estate activities in markets where we believe our extensive local knowledge and conservative and flexible balance sheet give us a competitive advantage over other real estate developers and operators. Through our capital recycling program, we generally seek to:

- selectively dispose of non-core properties no longer considered to be core holdings primarily due to location, age, quality and overall strategic fit;

- engage in the development of office, industrial and other real estate projects in existing or new geographic markets, primarily in suburban in-fill and central business district locations; and

- acquire selective office and industrial properties in existing markets that enhance our franchise or in new geographic markets at prices that offer attractive long-term returns for our stockholders.

Our capital recycling activities benefit from our local market presence and knowledge. Because our division officers and staff have significant real estate experience in their respective markets, we believe that we are in a better position to evaluate capital recycling opportunities than many of our competitors.

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

We expect to meet our short- and long-term liquidity requirements through a combination of any one or more 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.

Geographic Diversification. We do not believe that our operations are significantly dependent upon any particular geographic market. Today, including our various joint ventures, our portfolio consists primarily of office and industrial properties throughout the Southeastern United States, retail and office properties in Kansas City, MO and office, retail and residential properties in Des Moines, IA.

Competition

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

Employees

At December 31, 2009, the Company had 407 employees, of which 405 were also employees of the Operating Partnership.

ITEM 1A. RISK FACTORS

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

Adverse economic conditions in our suburban Southeastern markets that negatively impact the demand for office space, such as rising unemployment, may result in lower occupancy and rental rates for our portfolio, which would result in lower net income. 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 suburban office properties. Economic growth and employment levels in Florida, Georgia, North Carolina and Tennessee are and will continue to be important determinative factors in predicting our future operating results.

Key components affecting our rental and other revenues include average occupancy and rental rates. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of

slower economic growth and decreasing office employment because new vacancies tend to outpace our ability to lease space. In addition, the timing of changes in occupancy levels tends to lag the timing of changes in overall economic activity and employment levels. We expect a slight decline in total occupancy in 2010 primarily related to anticipated declines in occupancy in our industrial portfolio, which would likely reduce rental revenues from our same property portfolio. For additional information regarding our average occupancy and rental rate trends over the past five years, see “Item 2. Properties – Wholly Owned Properties” set forth in this Annual Report. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also must concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see “Item 2. Properties – Lease Expirations” set forth in this Annual Report. Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases signed are higher or lower than the rents under the previous leases. Lower rental revenues resulting from lower average occupancy or lower rental rates with respect to our same property portfolio will generally reduce our net income unless offset by the impact of any newly acquired or developed properties or lower variable operating expenses, general and administrative expenses and/or interest expense.

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

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

Our operating results and financial condition could be adversely affected by financial difficulties experienced by a major customer, or by a number of smaller customers, including bankruptcies, insolvencies or general downturns in business. The success of our investments and stability of our operations depend on the financial stability of our customers. A default or termination by a significant customer on its lease payments to us would cause us to lose the revenue associated with such lease. In the event of a customer default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing the property. If a customer defaults on or terminates a significant lease, we may be unable to lease the property for the rent previously received. These events could reduce our net income.

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

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

Compliance with new laws or regulations or stricter interpretation of existing laws may require us to incur significant expenditures. Future laws or regulations may impose significant environmental liability. Additionally, our customers' operations, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in

the form of fines or damages for noncompliance. Any expenditures, fines or damages we must pay would reduce our net income. Proposed legislation to address climate change could increase utility and other costs of operating our properties which, if not offset by rising rental income, would reduce our net income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities or future growth initiatives. For the Company to maintain its qualification as a REIT, it must annually distribute to its stockholders at least 90% of ordinary taxable income, excluding net capital gains. Under temporary IRS regulations, for 2010 and 2011, distributions can be paid partially using a REIT’s freely-tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, that are generated as part of our capital recycling program are subject to federal and state income tax unless such gains are distributed to the Company’s stockholders. Cash distributions made to stockholders to maintain REIT status or to distribute otherwise taxable capital gains limit our ability to accumulate capital for other business purposes, including funding debt maturities or growth initiatives.

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

- Ownership limit. The Company's charter prohibits direct, indirect or constructive ownership by any person or entity of more than 9.8% of the Company's outstanding capital stock. Any attempt to own or transfer shares of the Company's capital stock in excess of the ownership limit without the consent of the Company's Board of Directors will be void.

- Preferred Stock. The Company's charter authorizes its Board of Directors to issue Preferred Stock in one or more classes and to establish the preferences and rights of any class of Preferred Stock issued. These actions can be taken without stockholder approval. The issuance of Preferred Stock could have the effect of delaying or preventing someone from taking control of the Company, even if a change in control were in our best interest.

- Maryland control share acquisition statute. Maryland's control share acquisition statute applies to the Company, which means that persons, entities or related groups that acquire more than 20% of the Common Stock may not be able to vote such excess shares under certain circumstances if such shares were acquired in one or more transactions not approved by at least two-thirds of the outstanding Common Stock held by disinterested stockholders.

- Maryland unsolicited takeover statute. Under Maryland law, the Company's Board of Directors could adopt various anti-takeover provisions without the consent of stockholders. The adoption of such measures could discourage offers for the Company or make an acquisition of the Company more difficult, even when an acquisition would be in the best interest of its stockholders.

- Anti-takeover protections of Operating Partnership agreement. Upon a change in control of the Company, the partnership agreement of the Operating Partnership requires certain acquirers to maintain an umbrella partnership real estate investment trust ("UPREIT") structure with terms at least as favorable to the limited partners as are currently in place. For instance, the acquirer would be required to preserve the limited partner's right to continue to hold tax-deferred partnership interests that are redeemable for capital stock of the acquirer. Exceptions would require the approval of two-thirds of the limited partners of the Operating Partnership (other than the Company). These provisions may make a change of control transaction involving the Company more complicated and therefore might decrease the likelihood of such a transaction occurring, even if such a transaction would be in the best interest of the Company's stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Wholly Owned Properties

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

	December 31, 2009		December 31, 2008	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-Leased
In-Service:				
Office	20,445,000	88.8%	19,556,000	90.2%
Industrial	6,463,000	87.4	6,467,000	92.6
Retail	869,000	98.0	1,350,000	94.6
Total or Weighted Average (1), (3)	27,777,000	88.8%	27,373,000	91.0%
Development:				
Completed—Not Stabilized (2)				
Office	301,000	46.0%	665,000	64.2%
Industrial	200,000	50.0	—	—
Total or Weighted Average (4)	501,000	47.6%	665,000	64.2%
In Process				
Office	—	—	358,000	65.7%
Industrial	—	—	200,000	50.0
Total or Weighted Average	—	—	558,000	60.1%
Total:				
Office	20,746,000		20,579,000	
Industrial	6,663,000		6,667,000	
Retail	869,000		1,350,000	
Total (1), (3), (4)	28,278,000		28,596,000	

(1) Excludes 96 rental residential units.

(2) We consider a development project to be stabilized upon the earlier of the original projected stabilization date or the date such project is at least 95% occupied. All of these properties were placed in service at December 31, 2009 as reflected in our Consolidated Financial Statements.

(3) Excludes 618,000 square feet of office properties at December 31, 2009 and 2008 that are owned by consolidated joint ventures.

(4) Excludes 40 completed for-sale residential condominiums at December 31, 2009 that are owned by a consolidated, majority owned joint venture.

The following table summarizes the net changes in square footage in our in-service Wholly Owned Properties during the past three years:

	Years Ended December 31,		
	2009	2008	2007
	(rentable square feet in thousands)		
Office, Industrial and Retail Properties:			
Dispositions	(550)	(744)	(1,172)
Developments Placed In-Service	751	1,380	930
Redevelopment/Other	(17)	(11)	3
Acquisitions	220	135	—
Net Change in Square Footage of In-Service Wholly Owned Properties	404	760	(239)

The following table sets forth information about our in-service Wholly Owned Properties by segment and by geographic location at December 31, 2009:

Market	Rentable Square Feet	Occupancy	Percentage of Annualized Cash Rental Revenue (1)			
			Office	Industrial	Retail	Total
Raleigh, NC	4,194,000	83.8%	15.9%	—	—	15.9%
Tampa, FL	2,878,000	90.9	15.3	—	—	15.3
Atlanta, GA	5,653,000	90.4	11.2	3.9%	—	15.1
Nashville, TN	2,938,000	95.1	13.1	—	—	13.1
Kansas City, MO	1,508,000	92.9	3.4	—	6.8%	10.2
Piedmont Triad, NC	5,482,000	82.2	6.0	2.9	—	8.9
Richmond, VA	2,229,000	93.2	8.9	—	—	8.9
Memphis, TN	1,582,000	91.5	7.0	—	—	7.0
Greenville, SC	897,000	88.5	3.3	—	—	3.3
Orlando, FL	416,000	94.4	2.3	—	—	2.3
Total (2)	27,777,000	88.8%	86.4%	6.8%	6.8%	100.0%

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2009 multiplied by 12.

(2) Excludes 618,000 square feet of office properties owned by consolidated joint ventures.

The following table sets forth operating information about our in-service Wholly Owned Properties for the past five years:

	Average Occupancy	Annualized Cash Rent Per Square Foot (1)
2005	85.0%	$ 14.99
2006	88.5%	$ 15.89
2007	90.2%	$ 16.27
2008	91.2%	$ 17.18
2009	88.2%	$ 17.53

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

Land Held for Development

We wholly owned 581 acres of development land at December 31, 2009. We estimate that we can develop approximately 7.9 million square feet of office and industrial space on the 490 acres that we consider core, long-term holdings for our future development needs. Our joint ventures owned 53 acres of development land at December 31, 2009. We are currently developing 172,000 square feet of build-to-suit office space on 11.6 acres of land in one of our joint ventures. Our development land is zoned and available for office and industrial development, and nearly all of the land has utility infrastructure in place. We believe that our commercially zoned and unencumbered land in existing business parks gives us a development advantage over other commercial real estate development companies in many of our markets.

We consider 91 acres of our wholly owned development land at December 31, 2009 to be non-core assets that are not necessary for our foreseeable future development needs. We intend to dispose of such non-core development land through sales to third parties or contributions to joint ventures. Approximately 4.4 acres with a net book value of $1.2 million are under contract to be sold and are included in real estate and other assets, net, held for sale in our Consolidated Balance Sheet at December 31, 2009 and 2008.

Other Properties

The following table sets forth information about our stabilized in-service properties in which we own an interest (50.0% or less) by segment and by geographic location at December 31, 2009:

Market	Rentable Square Feet	Occupancy	Percentage of Annualized Cash Rental Revenue (1)				
			Office	Industrial	Retail	Multi-Family	Total
Des Moines, IA (2)	2,506,000	87.3%	26.8%	4.1%	0.7%	3.3%	34.9%
Orlando, FL	1,853,000	87.2	28.6	—	—	—	28.6
Atlanta, GA	835,000	73.2	9.1	—	—	—	9.1
Kansas City, MO (3)	719,000	82.0	10.2	—	—	—	10.2
Raleigh, NC	814,000	91.9	7.6	—	—	—	7.6
Richmond, VA (4)	413,000	100.0	4.8	—	—	—	4.8
Piedmont Triad, NC	258,000	60.7	2.1	—	—	—	2.1
Tampa, FL (5)	205,000	94.2	2.0	—	—	—	2.0
Charlotte, NC	148,000	100.0	0.7	—	—	—	0.7
Total	7,751,000	86.0%	91.9%	4.1%	0.7%	3.3%	100.0%

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2009 multiplied by 12.

(2) Rentable square feet and occupancy excludes 418 residential units, which were 91.9% occupied at December 31, 2009.

(3) Includes a 12.5% interest in a 261,000 square foot building that is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements.

(4) We own a 50.0% interest in this joint venture which is consolidated (see Notes 3 and 9 to our Consolidated Financial Statements).

(5) We own a 20.0% interest in this joint venture which is consolidated (see Notes 3 and 7 to our Consolidated Financial Statements).

We also owned an approximate 86.0% economic interest in a consolidated affiliate that owns 40 for-sale residential condominiums located in Raleigh, NC at December 31, 2009.

Lease Expirations

The following tables set forth scheduled lease expirations for existing leases at our in-service and completed – not stabilized Wholly Owned Properties at December 31, 2009:

Office Properties (1):

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (2)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (2)
			($ in thousands)		
2010 (3)	2,251,739	12.3%	$ 44,893	$ 19.94	11.9%
2011	2,465,343	13.5	49,966	20.27	13.3
2012	2,480,324	13.6	53,456	21.55	14.3
2013	2,404,558	13.2	52,537	21.85	14.0
2014	2,369,355	13.0	49,471	20.88	13.1
2015	1,591,620	8.7	29,792	18.72	7.9
2016	1,023,767	5.6	19,264	18.82	5.1
2017	1,078,540	5.9	20,693	19.19	5.5
2018	637,843	3.5	14,331	22.47	3.8
2019	439,924	2.4	8,456	19.22	2.2
Thereafter	1,511,552	8.3	33,418	22.11	8.9
	18,254,565	100.0%	$ 376,277	$ 20.61	100.0%

Industrial Properties:

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (2)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (2)
			($ in thousands)		
2010 (4)	928,972	16.2%	$ 3,740	$ 4.03	12.5%
2011	903,344	15.7	5,241	5.80	17.6
2012	778,952	13.5	3,853	4.95	12.9
2013	625,039	10.9	3,829	6.13	12.8
2014	851,483	14.8	4,472	5.25	15.0
2015	421,149	7.3	1,677	3.98	5.6
2016	264,597	4.6	1,086	4.10	3.6
2017	61,600	1.1	584	9.48	2.0
2018	71,884	1.2	251	3.49	0.8
2019	121,470	2.1	257	2.12	0.9
Thereafter	722,625	12.6	4,879	6.75	16.3
	5,751,115	100.0%	$ 29,869	$ 5.19	100.0%

(1) Excludes properties held by consolidated joint ventures.

(2) Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2009 multiplied by 12.

(3) Includes 61,000 square feet of leases that are on a month-to-month basis, which represent 0.3% of total annualized cash rental revenue.

(4) Includes 50,000 square feet of leases that are on a month-to-month basis, which represent less than 0.1% of total annualized cash rental revenue.

Retail Properties:

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (1) ($ in thousands)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)
2010 (2)	79,635	9.4%	$ 2,202	$ 27.65	7.5%
2011	74,457	8.7	1,723	23.14	5.8
2012	90,754	10.7	3,657	40.30	12.4
2013	47,027	5.5	2,190	46.57	7.4
2014	41,014	4.8	2,061	50.25	7.0
2015	69,331	8.1	3,356	48.41	11.4
2016	59,889	7.0	2,539	42.40	8.6
2017	110,803	13.0	2,554	23.05	8.6
2018	45,975	5.4	2,010	43.72	6.8
2019	87,530	10.3	2,547	29.10	8.6
Thereafter	144,800	17.1	4,691	32.40	15.9
	851,215	100.0%	$ 29,530	$ 34.69	100.0%

Total (3):

Lease Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (1) ($ in thousands)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (1)
2010 (4)	3,260,346	13.1%	$ 50,835	$ 15.59	11.7%
2011	3,443,144	13.9	56,930	16.53	13.1
2012	3,350,030	13.5	60,966	18.20	13.9
2013	3,076,624	12.4	58,556	19.03	13.3
2014	3,261,852	13.1	56,004	17.17	12.9
2015	2,082,100	8.4	34,825	16.73	8.0
2016	1,348,253	5.4	22,889	16.98	5.3
2017	1,250,943	5.0	23,831	19.05	5.5
2018	755,702	3.0	16,592	21.96	3.8
2019	648,924	2.6	11,260	17.35	2.6
Thereafter	2,378,977	9.6	42,988	18.07	9.9
	24,856,895	100.0%	$ 435,676	$ 17.53	100.0%

(1)

Annualized Cash Rental Revenue is cash rental revenue (base rent plus additional rent based on the level of operating expenses, excluding straight-line rent) for the month of December 2009 multiplied by 12.

(2) Includes 11,000 square feet of leases that are on a month-to-month basis, which represent less than 0.1% of total annualized cash rental revenue.

(3) Excludes properties held by consolidated joint ventures.

(4) Includes 122,000 square feet of leases that are on a month-to-month basis, which represent 0.3% of total annualized cash rental revenue.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position and Background
Edward J. Fritsch	51	Director, President and Chief Executive Officer. Mr. Fritsch has been a director since January 2001. Mr. Fritsch became our chief executive officer and chair of the investment committee of our board of directors on July 1, 2004 and our president in December 2003. Prior to that, Mr. Fritsch was our chief operating officer from January 1998 to July 2004 and was a vice president and secretary from June 1994 to January 1998. Mr. Fritsch joined our predecessor in 1982 and was a partner of that entity at the time of our initial public offering in June 1994. Mr. Fritsch is a member of the National Association of Real Estate Investment Trusts ("NAREIT") Board of Governors and audit committee member, past chair of the University of North Carolina Board of Visitors, trustee of the North Carolina Symphony, director and president of the YMCA of the Triangle, director of Capital Associated Industries, Inc. and member of Wachovia's Central Regional Advisory Board.
Michael E. Harris	60	Executive Vice President and Chief Operating Officer. Mr. Harris became chief operating officer in July 2004. Prior to that, Mr. Harris was a senior vice president and was responsible for our operations in Memphis, Nashville, Kansas City and Charlotte. Mr. Harris was executive vice president of Crocker Realty Trust prior to its merger with us in 1996. Before joining Crocker Realty Trust, Mr. Harris served as senior vice president, general counsel and chief financial officer of Towermarc Corporation, a privately owned real estate development firm. Mr. Harris is a member of the executive committee of the Urban Land Institute – Triangle Chapter and is past president of the Lambda Alpha International Land Economics Society.
Terry L. Stevens	61	Senior Vice President and Chief Financial Officer. Prior to joining us in December 2003, Mr. Stevens was executive vice president, chief financial officer and trustee for Crown American Realty Trust, a public REIT. Before joining Crown American Realty Trust, Mr. Stevens was director of financial systems development at AlliedSignal, Inc., a large multi-national manufacturer. Mr. Stevens was also an audit partner with Price Waterhouse for approximately seven years. Mr. Stevens currently serves as trustee, chairman of the Audit Committee and member of the Investment and Finance Committee of First Potomac Realty Trust, a public REIT. Mr. Stevens is a member of the American and the Pennsylvania Institutes of Certified Public Accountants.
Jeffrey D. Miller	39	Vice President, General Counsel and Secretary. Prior to joining us in March 2007, Mr. Miller was a partner with DLA Piper US, LLP, where he practiced since 2005. Previously, he was a

partner with Alston & Bird LLP, where he practiced from 1997. He is admitted to practice in North Carolina. Mr. Miller currently serves as lead independent director of Hatteras Financial Corp., a publicly-traded mortgage REIT.

Name	Age	Position and Background
W. Brian Reames	46	Senior Vice President and Regional Manager. Mr. Reames became senior vice president and regional manager in August 2004. Mr. Reames manages our Nashville division and oversees the operations of our Memphis and Greenville divisions. Prior to that, Mr. Reames was vice president responsible for the Nashville division, a position he held since 1999. Mr. Reames was a partner at Eakin & Smith, Inc., a Nashville-based office real estate firm, from 1989 until its merger with us in 1996. Mr. Reames is a past Nashville chapter President of the National Association of Industrial and Office Properties. He is currently serving on the Board of Directors of H.G. Hill Realty.

PART II

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

The following table sets forth the quarterly high and low stock prices per share reported on the NYSE for the quarters indicated and the dividends paid per share during such quarter:

	2009			2008		
Quarter Ended	High	Low	Dividend	High	Low	Dividend
March 31	$ 27.47	$ 15.53	$ 0.425	$ 32.34	$ 26.67	$ 0.425
June 30	26.84	19.79	0.425	37.38	31.42	0.425
September 30	34.09	19.35	0.425	37.94	29.88	0.425
December 31	35.24	26.60	0.425	34.29	15.59	0.425

On December 31, 2009, the last reported stock price of the Common Stock on the NYSE was $33.35 per share and the Company had 1,056 common stockholders of record. There is no public trading market for the Common Units. On December 31, 2009, the Operating Partnership had 120 holders of record of Common Units (other than the Company). At December 31, 2009, there were 71.3 million shares of Common Stock outstanding and 3.9 million Common Units outstanding not owned by the Company.

Because the Company is a REIT, the partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to distribute to its stockholders at least 90.0% of its REIT taxable income, excluding capital gains. Under temporary IRS regulations, for 2010 and 2011, distributions can be paid partially using a REIT's freely-tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. See "Item 1A. Risk Factors – Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities or future growth initiatives."

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

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

The following stock price performance graph compares the performance of our Common Stock to the S&P 500, the Russell 2000 and the FTSE NAREIT Equity REIT Index. The stock price performance graph assumes an investment of $100 in our Common Stock and the three indices on December 31, 2004 and further assumes the reinvestment of all

dividends. Equity REITs are defined as those that derive more than 75.0% of their income from equity investments in real estate assets. The FTSE NAREIT Equity REIT Index includes all REITs listed on the NYSE, the American Stock Exchange or the NASDAQ National Market System. Stock price performance is not necessarily indicative of future results.

	Period Ended				
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Highwoods Properties, Inc.	109.17	164.36	123.82	122.04	159.15
S&P 500	104.91	121.48	128.16	80.74	102.11
Russell 2000	104.55	123.76	121.82	80.66	102.58
FTSE NAREIT Equity REIT Index	112.16	151.49	127.72	79.53	101.79

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

During 2009, cash dividends on Common Stock totaled $1.70 per share, $0.01 of which represented return of capital and $0.60 represented capital gains for income tax purposes. The minimum dividend per share of Common Stock required for the Company to maintain its REIT status was $0.89 per share in 2009.

During the fourth quarter of 2009, the Company issued an aggregate of 74,107 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

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

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

Information about the Company's equity compensation plans and other related stockholder matters is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010.

ITEM 6. SELECTED FINANCIAL DATA

The operating results of the Company for the years ended December 31, 2008, 2007, 2006 and 2005 have been revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale in 2009 which qualified for discontinued operations presentation and the retroactive accounting modifications described in Note 1 to the Company's Consolidated Financial Statements. The information in the following table should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein ($ in thousands, except per share data):

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Rental and other revenues	$ 454,026	$ 450,291	$ 418,409	$ 391,555	$ 370,168
Income from continuing operations	$ 37,810	$ 10,486	$ 52,055	$ 32,670	$ 23,028
Income/(loss) from continuing operations available for common stockholders	$ 29,282	$ (1,459)	$ 33,051	$ 12,077	$ (7,594)
Net income	$ 61,694	$ 35,610	$ 97,095	$ 57,527	$ 65,739
Net income available for common stockholders	$ 51,778	$ 22,080	$ 74,983	$ 34,878	$ 30,948
Earnings per common share – basic:					
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58	$ 0.22	$ (0.14)
Net income	$ 0.76	$ 0.37	$ 1.32	$ 0.64	$ 0.57
Earnings per common share – diluted:					
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58	$ 0.22	$ (0.14)
Net income	$ 0.76	$ 0.37	$ 1.31	$ 0.62	$ 0.57
Dividends declared and paid per common share	$ 1.70	$ 1.70	$ 1.70	$ 1.70	$ 1.70

	December 31,				
	2009	2008	2007	2006	2005
Total assets	$ 2,887,101	$ 2,946,170	$ 2,926,955	$ 2,844,853	$ 2,908,978
Mortgages and notes payable	$ 1,469,155	$ 1,604,685	$ 1,641,987	$ 1,465,129	$ 1,471,616
Financing obligations	$ 37,706	$ 34,174	$ 35,071	$ 35,530	$ 34,154

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The operating results of the Operating Partnership for the years ended December 31, 2008, 2007, 2006 and 2005 have been revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale in 2009 which qualified for discontinued operations presentation and the retroactive accounting modifications described in Note 1 to the Operating Partnership's Consolidated Financial Statements. The information in the following table should be read in conjunction with the Operating Partnership's audited Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein ($ in thousands, except per share data):

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Rental and other revenues	$ 454,026	$ 450,291	$ 418,409	$ 391,555	$ 370,382
Income from continuing operations	$ 37,756	$ 10,359	$ 51,314	$ 32,473	$ 22,693
Income/(loss) from continuing operations available for common unitholders	$ 31,037	$ (1,594)	$ 34,873	$ 13,002	$ (8,817)
Net income	$ 61,640	$ 35,483	$ 94,895	$ 56,912	$ 65,252
Net income available for common unitholders	$ 54,921	$ 23,530	$ 78,454	$ 37,441	$ 33,742
Earnings per common unit – basic:					
Income/(loss) from continuing operations available for common unitholders	$ 0.43	$ (0.03)	$ 0.57	$ 0.22	$ (0.15)
Net income	$ 0.77	$ 0.37	$ 1.29	$ 0.63	$ 0.57
Earnings per common unit – diluted:					
Income/(loss) from continuing operations available for common unitholders	$ 0.43	$ (0.03)	$ 0.57	$ 0.21	$ (0.15)
Net income	$ 0.77	$ 0.37	$ 1.28	$ 0.61	$ 0.57
Distributions declared and paid per common unit	$ 1.70	$ 1.70	$ 1.70	$ 1.70	$ 1.70

	December 31,				
	2009	2008	2007	2006	2005
Total assets	$ 2,885,738	$ 2,944,856	$ 2,925,804	$ 2,837,649	$ 2,901,858
Mortgages and notes payable	$ 1,469,155	$ 1,604,685	$ 1,641,987	$ 1,464,266	$ 1,471,616
Financing obligations	$ 37,706	$ 34,174	$ 35,071	$ 35,530	$ 34,154

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

The Company is a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership. The Operating Partnership is managed by the Company, its sole general partner. At December 31, 2009, we owned or had an interest in 377 in-service office, industrial and retail properties, encompassing approximately 35.5 million square feet and 514 rental residential units, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements. As of that date, we also owned or had an interest in development land and other properties under development as described under "Item 1. Business" and "Item 2. Properties." We are based in Raleigh, NC, and our properties and development land are located in Florida, Georgia, Iowa, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia.

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

Disclosure Regarding Forward-Looking Statements

Some of the information in this Annual Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Item 1. Business." You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

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

we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; and

- the Company could lose key executive officers.

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

Executive Summary

Our Strategic Plan focuses on:

- owning high-quality, differentiated real estate assets in the best submarkets in our primary markets; and
- maintaining a conservative, flexible balance sheet with ample liquidity to meet our funding needs.

Execution of our Plan includes (1) growing net operating income at our existing properties through concentrated leasing, asset management and customer service efforts and (2) developing properties in infill locations and acquiring strategic properties that are accretive to long-term earnings and stockholder value. 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 in Florida, Georgia, North Carolina and Tennessee is and will continue to be an important determinative factor in predicting our future operating results. Our portfolio has changed significantly over the past five years and now consists of a higher mix of Class A and B properties, which are generally expected to outperform competitive properties in our core markets. We have repositioned our portfolio primarily by selling non-core properties and developing properties in in-fill locations. Our real estate professionals are seasoned and cycle-tested. Our senior leadership team has significant experience and maintains important relationships with market participants in each of our primary markets. Our focus in 2010 is to lease and operate our existing portfolio as effectively and efficiently as possible and acquire and develop additional real estate assets that improve the overall quality of our portfolio and generate attractive returns over the long-term for our stockholders.

Results of Operations

Comparison of 2009 to 2008

Rental and Other Revenues

Rental and other revenues from continuing operations were modestly higher in 2009 as compared to 2008 primarily due to the contribution of development properties placed in service in 2008 and 2009, the acquisitions of the PennMarc building in Memphis, TN and the 4200 Cypress building in Tampa, FL and higher average rental rates, partly offset by lower revenues in our same property portfolio caused by lower average occupancy in 2009.

Average occupancy of our portfolio, particularly industrial assets, declined in 2009. We expect average occupancy to continue to decline in the first several quarters of 2010 as a result of continued high unemployment levels. Approximately 10-15% of our revenues at the beginning of any particular year are subject to leases that expire by the end of that year. The federal government’s contribution to our revenues has increased significantly over the past five years from long-term leases with high renewal probabilities. Overall, we expect 2010 rental and other revenues, adjusted for any discontinued operations in 2010, to increase over 2009 due to higher average rental rates in the portfolio, the full year contribution of acquisitions made and development projects delivered during 2009, partly offset by lower occupancy levels.

Operating Expenses

Rental property and other expenses were modestly higher in 2009 as compared to 2008 primarily due to higher expenses from the contribution of development properties placed in service in 2008 and 2009, the acquisitions of the PennMarc building in Memphis, TN and the 4200 Cypress building in Tampa, FL, partly offset by lower expenses in

our same property portfolio. The reduction in our same property operating expenses reflects management's efforts to reduce operating expenses. The overall reduction in same property operating expenses was partly offset by higher real estate taxes and utility rate increases. We expect real estate taxes and utility rates to continue to increase in 2010.

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

Depreciation and amortization was 5.1% higher in 2009 as compared to 2008 primarily due to higher depreciation and amortization from development properties placed in service in 2008 and 2009 and the acquisitions of the PennMarc building in Memphis, TN and the 4200 Cypress building in Tampa, FL.

We recorded impairments of $13.5 million in 2009 and $32.8 million in 2008 on assets located in Winston-Salem and Greensboro, NC. The 2009 impairment related to 12 office properties, 11 of which were previously impaired in 2008, six industrial properties and two retail properties. Impairments can arise from a number of factors which are subject to change; accordingly, we may be required to take additional impairment charges in the future.

General and administrative expenses were 3.6% lower in 2009 as compared to 2008, primarily due to lower salaries, benefits and incentive compensation mostly from reduced headcount and lower expenses from unsuccessful development projects. Partly offsetting this decrease was an increase from the year-over-year change in the valuation adjustment of deferred compensation liabilities under our non-qualified deferred compensation plan and lower capitalization of development and leasing costs. We anticipate continued reductions in general and administrative expenses in 2010 due to full year effects of headcount reductions implemented in 2008 and 2009 and lower incentive compensation costs.

Other Income

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

Interest Expense

Interest expense was 11.7% lower in 2009 as compared to 2008, primarily due to lower average outstanding borrowings during 2009 mostly due to the application of proceeds of our sales of Common Stock in September 2008 and June 2009 to pay down debt and lower average borrowing rates on our floating rate debt, partly offset by lower capitalized interest resulting from decreased development in process. We anticipate interest expense will increase in 2010 due to higher rates on our floating rate debt, higher fees on our new revolving credit facility, higher amortization of deferred financing costs and lower capitalized interest. Average outstanding borrowings may also increase depending on the net amount of property acquisitions and dispositions, which would also increase interest expenses in 2010.

Gains on For-Sale Residential Condominiums

In 2009 and 2008, gains on for-sale residential condominiums aggregated $0.9 million and $5.6 million, respectively, resulting from sales of majority-owned residential condominiums and related forfeitures of earnest money deposits. Our partner’s interest in these gains was $(0.5) million and $1.3 million, respectively, and was recorded as noncontrolling interests in consolidated affiliates. Our partner will receive a preferred return of the net profits from the joint venture once the partners have received distributions equal to their equity plus a 12.0% return on their equity. Our partner’s preferred return, if any, is determinable only after all units are sold. Our partner’s estimated economic interest decreased from 25% at December 31, 2008 to 14% at December 31, 2009 due to changes in the projected timing of sales and related gains resulting in the allocation of a loss to the partner’s non-controlling interest. We have 38 for-sale residential condominiums as of February 3, 2010. We anticipate these 38 condominiums will be sold over the course of 2010 and 2011.

Discontinued Operations

The Company classified income of $23.9 million and $25.1 million as discontinued operations in 2009 and 2008, respectively. These amounts relate to 1.3 million square feet of office, industrial and retail properties and 13 rental residential units sold or held for sale during 2009 and 2008, and include gains on the sale of these properties of $21.5 million and $18.5 million in 2009 and 2008, respectively.

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

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

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

Dividends on Preferred Equity

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

Comparison of 2008 to 2007

Rental and Other Revenues

Rental and other revenues from continuing operations were 7.6% higher in 2008 as compared to 2007 primarily due to the contribution from development properties placed in service in 2007 and 2008, higher average occupancy and higher average rental rates.

Operating Expenses

Rental property and other expenses were 8.2% higher in 2008 as compared to 2007 primarily due to general inflationary increases in certain operating expenses, which include utility costs, insurance, real estate taxes, salaries, and benefits, and from expenses of development properties placed in service in 2007 and 2008.

Operating margin was slightly lower at 64.1% in 2008 as compared to 64.3% in 2007.

Depreciation and amortization was 5.4% higher in 2008 as compared to 2007 primarily from development properties placed in service in 2007 and 2008.

We recorded impairments of $32.8 million in 2008, related to 11 office properties and one land parcel in Winston-Salem, NC. We recorded an impairment of $0.8 million in 2007 related to one land parcel.

General and administrative expenses were 8.5% lower in 2008 as compared to 2007 primarily due to lower audit and legal fees and lower deferred compensation expense caused by an decrease in the value of marketable securities held under our non-qualified deferred compensation plan, partially offset by higher compensation costs including short and long-term incentive compensation.

Interest Expense

Contractual interest expense was relatively unchanged in 2008 as compared to 2007 primarily due to a decrease in weighted average interest rates on outstanding debt and lower capitalized interest resulting from decreased development in process, offset by an increase in average borrowings.

Gains on Disposition of Property; Gains on For-Sale Residential Condominiums; Gain from Property Insurance Settlement; Equity in Earnings of Unconsolidated Affiliates

Gains on disposition of property not classified as discontinued operations were $0.8 million in 2008 compared to $20.6 in 2007 and primarily relate to land dispositions. Gains are dependent on the specific assets sold, historical cost basis and other factors, and can vary significantly from period to period.

In 2008, gains on for-sale residential condominiums aggregating $5.6 million resulted from sales of majority-owned condominiums and related forfeitures of earnest money deposits. Our partner's interest in these gains was $1.3 million and was recorded as noncontrolling interests in consolidated affiliates. There were no gains on for-sale residential condominiums in 2007.

In 2007, we recorded a $4.1 million gain from finalization of a prior year insurance claim related to hurricane damage sustained by one of our office properties located in southeastern Florida.

Equity in earnings of unconsolidated affiliates decreased $7.2 million from 2007 to 2008 primarily due to the sale of 332 rental residential units and five office properties in unconsolidated joint ventures. Equity in earnings of unconsolidated affiliates in the Operating Partnership does not include the Company’s 12.5% interest in a 261,000 square foot office property owned directly by the Company.

Discontinued Operations

The Company classified income of $25.1 million and $45.0 million as discontinued operations in 2008 and 2007, respectively. These amounts relate to 2.5 million square feet of office, industrial and retail properties and 13 rental residential units sold or held for sale during 2009, 2008 and 2007, and include net gains on the sale of these properties of $18.5 million and $34.5 million in 2006 and 2007, respectively.

During 2007, the Company recorded $1.5 million in income from the release of an uncertain tax liability. This item did not relate to the Operating Partnership’s operations and is thus not recorded in the Operating Partnership’s Consolidated Financial Statements.

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

The Company’s net income attributable to noncontrolling interests in the Operating Partnership was $4.1 million lower in 2008 as compared to 2007 primarily due to lower income from continuing operations, after preferred equity distributions, of the Operating Partnership.

Net income attributable to consolidated affiliates was $1.4 million higher in 2008 as compared to 2007 primarily due to higher gains on for-sale residential condominiums.

Dividends on Preferred Equity

Dividends on preferred equity were 37.5% lower in 2008 as compared to 2007 due to the retirement of $53.8 million and $62.0 million of preferred equity in 2008 and 2007, respectively.

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 from 2008 to 2009 ($ in thousands):

	Years Ended December 31, 2009	2008	Change
Cash Provided By Operating Activities	$ 189,120	$ 157,822	$ 31,298
Cash (Used In) Investing Activities	(61,824)	(134,343)	72,519
Cash (Used In) Financing Activities	(117,354)	(12,862)	(104,492)
Total Cash Flows	$ 9,942	$ 10,617	$ (675)

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

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

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

The increase of $31.3 million in cash provided by operating activities of the Company in 2009 compared to 2008 was primarily the result of the net increase in the change in operating assets and liabilities as well as cash flows from net income as adjusted for changes in depreciation and amortization, impairment of assets held for use, gains on disposition of property, gains on disposition of for-sale residential condominiums and distributions of earnings from unconsolidated affiliates. We expect cash provided by operating activities to be slightly lower in 2010 due to lower

anticipated net income resulting from lower average occupancy at our same property portfolio and higher interest expense.

The decrease of $72.5 million in cash used in investing activities in 2009 compared to 2008 was primarily the result of lower capital expenditures, higher proceeds from dispositions of real estate assets, and lower contributions to unconsolidated affiliates partly offset by lower proceeds from disposition of for-sale residential condominiums and reductions in changes in restricted cash and other investing activities. We currently expect cash used in investing activities to be higher in 2010 than 2009 resulting from an expected increase in net acquisition activity.

The increase of $104.5 million in cash used in financing activities in 2009 compared to 2008 was primarily the result of higher net reductions in debt, higher common dividends resulting from an increase in the number of shares of Common Stock outstanding and lower net proceeds from the sale of Common Stock, offset by lower redemptions/repurchases of Preferred Stock and lower preferred dividends from a decrease in Preferred Stock outstanding. We expect cash used in financing activities to be lower in 2010 from expected borrowings or sales of additional Common Stock to fund an expected increase in net acquisition activity.

Capitalization

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

	December 31,			
		2009		2008
Mortgages and notes payable, at recorded book value	$	1,469,155	$	1,604,685
Financing obligations	$	37,706	$	34,174
Preferred Stock, at liquidation value	$	81,592	$	81,592
Common Stock outstanding		71,285		63,572
Common Units outstanding (not owned by the Company)		3,891		4,067
Per share stock price at year end	$	33.35	$	27.36
Market value of Common Stock and Common Units	$	2,507,120	$	1,850,603
Total market capitalization	$	4,095,573	$	3,571,054

Based on our total market capitalization of approximately $4.1 billion at December 31, 2009 (based on the December 31, 2009 per share stock price of $33.35 and assuming the redemption for shares of Common Stock of the approximate 3.9 million Common Units not owned by the Company), our mortgages and notes payable represented 36% of our total market capitalization.

Mortgages and notes payable at December 31, 2009 was comprised of $720.7 million of secured indebtedness with a weighted average interest rate of 6.21% and $748.4 million of unsecured indebtedness with a weighted average interest rate of 5.41%. At December 31, 2009, our outstanding mortgages and notes payable and financing obligations were secured by real estate assets with an aggregate undepreciated book value of approximately $1.2 billion.

Current and Future Cash Needs

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our existing revolving credit facility and revolving construction credit facility (which had $398.4 million and $28.3 million of availability, respectively, at February 3, 2010). 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 not related to a specific customer to maintain existing buildings. Tenant improvements are the costs required to customize space for the specific needs of customers in spaces other than in new development projects. We anticipate that our available cash and cash equivalents and cash provided by operating activities, together with cash available from borrowings under our credit facilities, will be adequate to meet our short-term liquidity requirements.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity (including mortgage debt, our revolving and construction credit facilities, term loans and other unsecured debt), funding of existing and new building development or land infrastructure projects and funding acquisitions of buildings and development land. Excluding capital expenditures for leasing costs and tenant improvements and for normal building improvements, our expected future capital expenditures for started and/or committed new development projects were approximately $5.0 million at December 31, 2009. Additionally, we may, from time to time, retire some or all of our remaining outstanding Preferred Stock and/or unsecured debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

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

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

Distributions

To maintain its qualification as a REIT, the Company must pay dividends to stockholders that are at least 90.0% of its annual REIT taxable income, excluding net capital gains. The Company's REIT taxable income, as determined by the federal tax laws, does not equal its net income under accounting principles generally accepted in the United States ("GAAP"). Under temporary IRS regulations, for 2010 and 2011, distributions can be paid partially using a REIT's freely-tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, that are generated as part of our capital recycling program are subject to federal and state income tax unless such gains are distributed to stockholders. The partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to pay such dividends.

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

Financing Activity

In 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes and retired the remaining $107.2 million principal amount of a two-tranched secured loan. We also obtained a $20.0 million, three-year unsecured term loan, a $115.0 million, six and a half-year secured loan and a $47.3 million, seven-year secured loan. We also repurchased $8.2 million principal amount of unsecured notes due 2017.

In 2009, we obtained a new $400.0 million unsecured revolving credit facility, which replaced our previously existing revolving credit facility. Our new revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional $50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our new revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other

debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There were no amounts outstanding under our revolving credit facility at December 31, 2009 and February 3, 2010. At December 31, 2009 and February 3, 2010, we had $1.7 million and $1.6 million, respectively, of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2009 and February 3, 2010 was $398.3 million and $398.4 million, respectively.

Our $70.0 million secured construction facility, of which $41.7 million was outstanding at December 31, 2009, is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had $28.3 million of availability at December 31, 2009 and February 3, 2010.

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

Covenant Compliance

We are currently in compliance with all debt covenants and requirements. 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, $137.5 million bank term loan due in February 2011 and $20.0 million bank term loan due in March 2012 also require us to comply with customary operating covenants and various financial requirements, including a requirement that we maintain a ratio of total liabilities to total asset value, as defined in the respective agreements, of no more than 60%. Total asset value depends upon the effective economic capitalization rate (after deducting capital expenditures) used to determine the value of our buildings. Depending upon general economic conditions, the lenders have the good faith right to unilaterally increase the capitalization rate by up to 25 basis points once in any twelve-month period. The lenders have not previously exercised this right. Any such increase in capitalization rates, without a corresponding reduction in total liabilities, could make it more difficult for us to maintain a ratio of total liabilities to total asset value of no more than 60%, which could have an adverse effect on our ability to borrow additional funds under the revolving credit facility. If we were to fail to make a payment when due with respect to any of our other obligations with aggregate unpaid principal of $10.0 million, and such failure remains uncured for more than 120 days, the lenders under our credit facility could provide notice of their intent to accelerate all amounts due thereunder. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has $390.9 million principal amount of 2017 bonds outstanding and $200.0 million principal amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios, including a requirement that we maintain unencumbered assets of at least 200% of all outstanding unsecured debt. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

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

Contractual Obligations

The following table sets forth a summary regarding our known contractual obligations, including required interest payments for those items that are interest bearing, at December 31, 2009 ($ in thousands):

	Amounts due during years ending December 31,						
	Total	2010	2011	2012	2013	2014	Thereafter
Mortgages and Notes Payable:							
Principal payments (1)	$ 1,469,155	$ 52,860	$ 149,344	$ 240,214	$ 242,782	$ 34,664	$ 749,291
Interest payments	455,705	84,907	82,128	67,068	58,491	49,169	113,942
Financing Obligations:							
SF-HIW Harborview Plaza, LP financing obligation	12,230	—	—	—	—	12,230	—
Tax increment financing bond	15,374	1,116	1,193	1,277	1,365	1,460	8,963
Repurchase obligation	4,250	4,250	—	—	—	—	—
Capitalized ground lease obligations	1,191	—	—	—	—	—	1,191
Interest on financing obligations (2)	6,801	1,117	1,042	963	880	791	2,008
Capitalized Lease Obligations	244	123	102	19	—	—	—
Purchase Obligations:							
Completion contracts (3)	6,729	6,729	—	—	—	—	—
Operating Lease Obligations:							
Operating ground leases	36,867	1,110	1,129	1,150	1,171	1,193	31,114
Other Long Term Obligations (in accounts payable, accrued expenses and other liabilities):							
DLF I obligation	1,944	556	567	578	243	—	—
KC Orlando guarantee	129	97	32	—	—	—	—
Total	$ 2,010,619	$ 152,865	$ 235,537	$ 311,269	$ 304,932	$ 99,507	$ 906,509

(1) This payment schedule does not reflect two one-year extension options related to outstanding amounts on our $70.0 million secured construction facility.

(2) This amount does not include interest on the SF-HIW Harborview Plaza, LP financing obligation, which cannot be reasonably estimated for future periods. The interest expense on this financing obligation was $0.8 million, $1.6 million and $2.6 million in 2009, 2008 and 2007, respectively. See Note 7 to our Consolidated Financial Statements.

(3) This amount is defined as payments to be made under current contracts for various construction projects.

The interest payments due on mortgages and notes payable are based on the stated rates for the fixed rate debt and on the rates in effect at December 31, 2009 for the variable rate debt. The weighted average interest rate on the fixed and variable rate debt was 6.67% and 1.54%, respectively, at December 31, 2009. For additional information about our mortgages and notes payable, see Note 5 to our Consolidated Financial Statements.

For additional information about our financing obligations, see Note 7 to our Consolidated Financial Statements. For additional information about purchase obligations, operating lease obligations and other long term obligations reflected in our Consolidated Balance Sheets, see Note 8 to our Consolidated Financial Statements.

Off Balance Sheet Arrangements

As discussed in Note 1 to our Consolidated Financial Statements, we generally account for our investments in less than majority owned joint ventures, partnerships and limited liability companies using the equity method. As a result, the assets and liabilities and the results of operations of these joint ventures are not included in our Consolidated Financial Statements, other than as investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates.

At December 31, 2009, our unconsolidated joint ventures had $801.8 million of total assets and $626.9 million of total liabilities. At December 31, 2009, our weighted average equity interest based on the total assets of these unconsolidated joint ventures was 36.9%. During 2009, these unconsolidated joint ventures earned $9.7 million of aggregate net income, of which our share, after purchase accounting and other adjustments related to management and leasing fees, was $5.4 million. For additional information about our unconsolidated joint venture activity, see Note 3 to our Consolidated Financial Statements.

At December 31, 2009, our unconsolidated joint ventures had $594.1 million of outstanding mortgage debt. The following table sets forth the scheduled maturities of the Company's proportionate share of the outstanding debt of its unconsolidated joint ventures at December 31, 2009 ($ in thousands):

2010	$ 10,343
2011	6,296
2012	40,253
2013	23,618
2014	61,610
Thereafter	96,435
	$ 238,555 (1)

(1) This amount includes $1.5 million related to the outstanding debt of a 261,000 square foot office property, the equity interest in which is owned directly by the Company, and thus is included in the Company's Consolidated Financial Statements, but is not included in the Operating Partnership's Consolidated Financial Statements.

All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees set forth in the following table ($ in thousands):

Guarantee Type	Entity	Location	Maturity Date	Maximum Potential Obligation	Accrual at December 31, 2009
Indirect debt	Three Fountains	Des Moines	8/2019	$ 1,718	$ 385
Debt	RRHWoods/ DCP	Des Moines	7/2014	$ 1,336	$ 49
Debt	RRHWoods	Des Moines	11/2011	$ 2,795	$ 15
Indirect debt	RRHWoods	Des Moines	9/2015	$ 3,112	$ 245

Financing Arrangements

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

Our joint venture partner in Harborview has the right to put its 80.0% equity interest in the joint venture to us in exchange for cash at any time during the one-year period commencing September 11, 2014. The value of the 80.0% equity interest will be determined at the time that our partner elects to exercise its put right, if ever, based upon the

then fair market value of Harborview LP's assets and liabilities, less 3.0%, which amount was intended to cover the normal costs of a sale transaction. Because of the put option, this transaction is accounted for as a financing transaction. Accordingly, the assets, liabilities and operations related to Harborview Plaza, the property owned by Harborview LP remain in our Consolidated Financial Statements.

As a result, we have established a financing obligation equal to the net equity contributed by the other partner. At the end of each reporting period, the balance of the financing obligation is adjusted to equal the greater of the original financing obligation or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was $12.2 million and $13.9 million at December 31, 2009 and 2008, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books. At such time as the put option expires or is otherwise terminated, we will record the transaction as a sale and recognize gain on sale.

- Tax Increment Financing Bond

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

- Repurchase Obligation

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

- Capitalized Ground Lease Obligation

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

Interest Rate Hedging Activities

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock or similar agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. At December 31, 2009, we have no outstanding interest rate hedge contracts.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from our estimates.

The policies used in the preparation of our Consolidated Financial Statements are described in Note 1 to our Consolidated Financial Statements for the year ended December 31, 2009. However, certain of our significant accounting policies contain an increased level of assumptions used or estimates made in determining their impact in our Consolidated Financial Statements. Management has reviewed and determined the appropriateness of our critical accounting policies and estimates with the audit committee of the Company’s Board of Directors.

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

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

Real Estate and Related Assets

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

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

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

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

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

the tangible assets of an acquired property considers the value of the property as if it were vacant.

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

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

The value of a customer relationship is based on our overall relationship with the respective customer. Factors considered include the customer's credit quality and expectations of lease renewals. The value of a customer relationship is amortized to depreciation and amortization expense over the initial term and any renewal periods defined in the respective leases.

Real estate and other assets are classified as long-lived assets held for use or as long-lived assets held for sale. Real estate is classified as held for sale when we believe a sale is probable. We believe a sale is probable when we execute a legally enforceable contract on terms that have been approved by the Company's Board, or a committee thereof, and the probable buyer's due diligence investigation period, if any, has expired. This determination requires us to make estimates and assumptions, including assessing the probability that potential sales transactions may or may not occur. Actual results could differ from those assumptions.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances, such as a significant decline in occupancy, change in our designation of an asset as a core or non-core holding or market value less than cost, indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, costs to operate each property, and expected ownership periods. If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

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

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

unconsolidated affiliates.

Sales of Real Estate

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

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

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

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

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Our total receivables balance related to our customers is comprised primarily of rents and operating cost recoveries as well as accrued straight-line rents receivable. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the expected recovery through bankruptcy claims and increase the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of accounts receivable and accrued straight-line rents receivable prove incorrect, we could experience write-offs of accounts receivable or accrued straight-line rents receivable in excess of our allowance for doubtful accounts.

Rental and Other Revenues

Rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when

the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Termination fees are recognized as revenue when the following four conditions are met: a fully executed lease termination agreement has been delivered; the customer has vacated the space; the amount of the fee is determinable; and collectability of the fee is reasonably assured.

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

Funds From Operations ("FFO")

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

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

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

- Net income/(loss) computed in accordance with GAAP;
- Less dividends to holders of Preferred Stock and less excess of Preferred Stock redemption cost over carrying value;
- Less net income attributable to noncontrolling interests;

- 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, related to discontinued operations.

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

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

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

	Years Ended December 31,					
	2009		2008		2007	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Funds from operations:						
Net income	$ 61,694		$ 35,610		$ 97,095	
Net (income) attributable to noncontrolling interests in the Operating Partnership	(3,197)		(1,577)		(5,671)	
Net (income) attributable to noncontrolling interests in consolidated affiliates	(11)		(2,041)		(679)	
Dividends on preferred stock	(6,708)		(9,804)		(13,477)	
Excess of preferred stock redemption/repurchase cost over carrying value	—		(108)		(2,285)	
Net income available for common stockholders	51,778	$ 0.76	22,080	$ 0.37	74,983	$ 1.31
Add/(Deduct):						
Depreciation and amortization of real estate assets	129,150	1.79	122,728	1.93	115,923	1.88
(Gains) on disposition of depreciable properties	(127)	—	(126)	—	(3,952)	(0.06)
Net income attributable to noncontrolling interests in the Operating Partnership	3,197	—	1,577	—	5,671	—
Unconsolidated affiliates:						
Depreciation and amortization of real estate assets	12,839	0.18	12,751	0.20	13,438	0.21
(Gains) on disposition of depreciable properties	(781)	(0.01)	—	—	(7,158)	(0.12)
Discontinued operations:						
Depreciation and amortization of real estate assets	835	0.01	2,947	0.05	5,523	0.09
(Gains) on disposition of depreciable properties	(21,843)	(0.30)	(18,485)	(0.29)	(34,861)	(0.57)
Release of uncertain tax liability	—	—	—	—	(1,473)	(0.02)
Funds from operations	$ 175,048	$ 2.43	$ 143,472	$ 2.26	$ 168,094	$ 2.72

Weighted average shares outstanding (1) (2)	72,079	63,492	61,782

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

(2) Weighted average shares outstanding for the years ended December 31, 2008 and 2007 have been revised from previously reported amounts to include our total number of restricted shares, as disclosed in Note 1 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. Actual future results may differ materially from those presented. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and the Notes to Consolidated Financial Statements for a description of our accounting policies and other information related to these financial instruments.

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 December 31, 2009, we had $1,270 million of fixed rate debt outstanding. The estimated aggregate fair market value of this debt at December 31, 2009 was $1,246 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt at December 31, 2009 would have been approximately $54.3 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt at December 31, 2009 would have been approximately $57.7 million higher.

At December 31, 2009, we had $199.2 million of variable rate debt outstanding. The estimated aggregate fair market value of this debt at December 31, 2009 was $194.0 million. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower during the 12 months ended December 31, 2009, our interest expense relating to this debt would have decreased or increased by approximately $2.0 million.

We have no outstanding hedge contracts at December 31, 2009.

ITEM 8. FINANCIAL STATEMENTS

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

General

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

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

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

We do not expect that our controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on The Company's Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting at December 31, 2009 based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2009, the Company's internal control over financial reporting was effective. Deloitte & Touche LLP, our independent registered public accounting firm, has issued their attestation report, which is included below, on the effectiveness of the Company's internal control over financial reporting at December 31, 2009.

Management's Annual Report on The Operating Partnership's Internal Control Over Financial Reporting

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

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Operating Partnership's internal control over financial reporting at December 31, 2009 based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2009, the Operating Partnership's internal control over financial reporting was effective. SEC rules do not require us to obtain an attestation report of Deloitte & Touche LLP on the effectiveness of the Operating Partnership's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on The Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2009 of the Company and our report dated February 11, 2010 expressed an unqualified opinion on

those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 11, 2010

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2009 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in the Operating Partnership's internal control over financial reporting during the fourth quarter of 2009 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Disclosure Controls And Procedures

SEC rules also require us to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As defined in Rule 13a-15(e) under the Exchange Act, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosure. The Company's CEO and CFO believe that the Company's disclosure controls and procedures were effective at the end of the period covered by this Annual Report. The Company's CEO and CFO also believe that the Operating Partnership's disclosure controls and procedures were effective at the end of the period covered by this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about the Company's executive officers and directors and the code of ethics that applies to the Company's chief executive officer and senior financial officers, which is posted on our website, is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010. See Item X in Part I of this Annual Report for biographical information regarding the Company's executive officers. The Company is the sole general partner of the Operating Partnership.

ITEM 11. EXECUTIVE COMPENSATION

Information about the compensation of the Company's directors and executive officers is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010.

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

Information about the beneficial ownership of Common Stock and the Company's equity compensation plans is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information about certain relationships and related transactions and the independence of the Company's directors is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about fees paid to and services provided by our independent registered public accounting firm is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 13, 2010.

PART IV

ITEM 15. EXHIBITS

Financial Statements

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

Exhibits

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

12.1	Statement re: Computation of Ratios of the Company
12.2	Statement re: Computation of Ratios of the Operating Partnership
21	Schedule of subsidiaries
23.1	Consent of Deloitte & Touche LLP for Highwoods Properties, Inc.
23.2	Consent of Deloitte & Touche LLP for Highwoods Realty Limited Partnership

Exhibit Number	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.3	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.4	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.3	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.4	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Highwoods Properties, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 11, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 11, 2010

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	$ 350,537	$ 352,005
Buildings and tenant improvements	2,880,632	2,815,967
Development in process	—	61,938
Land held for development	104,148	98,946
	3,335,317	3,328,856
Less-accumulated depreciation	(781,073)	(712,837)
Net real estate assets	2,554,244	2,616,019
For-sale residential condominiums	12,933	24,284
Real estate and other assets, net, held for sale	5,031	5,096
Cash and cash equivalents	23,699	13,757
Restricted cash	6,841	2,258
Accounts receivable, net of allowance of $2,810 and $1,281, respectively	21,069	23,687
Notes receivable, net of allowance of $698 and $459, respectively	3,143	3,602
Accrued straight-line rents receivable, net of allowance of $2,443 and $2,082, respectively	82,600	79,706
Investment in unconsolidated affiliates	66,077	67,723
Deferred financing and leasing costs, net of accumulated amortization of $52,129 and $52,494, respectively	73,517	72,992
Prepaid expenses and other assets	37,947	37,046
Total Assets	$ 2,887,101	$ 2,946,170
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	$ 1,469,155	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	117,328	135,609
Financing obligations	37,706	34,174
Total Liabilities	1,624,189	1,774,468
Commitments and Contingencies		
Noncontrolling interests in the Operating Partnership	129,769	111,278
Equity:		
Preferred Stock, $.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference $1,000 per share), 29,092 shares issued and outstanding	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 2,100,000 shares issued and outstanding	52,500	52,500

Common stock, $.01 par value, 200,000,000 authorized shares;		
71,285,303 and 63,571,705 shares issued and outstanding	713	636
Additional paid-in capital	1,751,398	1,616,093
Distributions in excess of net earnings	(701,932)	(639,281)
Accumulated other comprehensive loss	(3,811)	(4,792)
Total Stockholders' Equity	1,127,960	1,054,248
Noncontrolling interests in consolidated affiliates	5,183	6,176
Total Equity	1,133,143	1,060,424
Total Liabilities, Noncontrolling Interests in the Operating		
Partnership and Equity	$ 2,887,101	$ 2,946,170

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(in thousands, except per share amounts)

	Years Ended December 31,		
	2009	2008	2007
Rental and other revenues	$ 454,026	$ 450,291	$ 418,409
Operating expenses:			
Rental property and other expenses	164,255	161,852	149,517
Depreciation and amortization	131,048	124,673	118,341
Impairment of assets held for use	13,518	32,846	789
General and administrative	36,682	38,043	41,570
Total operating expenses	345,503	357,414	310,217
Interest expense:			
Contractual	81,982	92,858	93,975
Amortization of deferred financing costs	2,760	2,716	2,415
Financing obligations	2,130	2,918	3,930
	86,872	98,492	100,320
Other income:			
Interest and other income	8,263	3,825	6,383
Gains on debt extinguishment	1,287	—	—
	9,550	3,825	6,383
Income/(loss) from continuing operations before disposition of property and condominiums, insurance settlement and equity in earnings of unconsolidated affiliates	31,201	(1,790)	14,255
Gains on disposition of property	266	781	20,562
Gains on for-sale residential condominiums	922	5,617	—
Gain from property insurance settlement	—	—	4,128
Equity in earnings of unconsolidated affiliates	5,421	5,878	13,110
Income from continuing operations	37,810	10,486	52,055
Discontinued operations:			
Income from discontinued operations	2,418	6,639	9,090
Net gains on disposition of discontinued operations	21,466	18,485	34,477
Release of uncertain tax liability	—	—	1,473
	23,884	25,124	45,040
Net income	61,694	35,610	97,095
Net (income) attributable to noncontrolling interests in the Operating Partnership	(3,197)	(1,577)	(5,671)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(11)	(2,041)	(679)
Dividends on preferred stock	(6,708)	(9,804)	(13,477)
Excess of preferred stock redemption/repurchase cost over carrying value	—	(108)	(2,285)

Net income available for common stockholders	$ 51,778	$ 22,080	$ 74,983
Earnings per common share – basic:			
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58
Income from discontinued operations available for common stockholders	0.33	0.40	0.74
Net income available for common stockholders	$ 0.76	$ 0.37	$ 1.32
Weighted average Common Shares outstanding – basic	67,971	59,320	56,929
Earnings per common share – diluted:			
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58
Income from discontinued operations available for common stockholders	0.33	0.40	0.73
Net income available for common stockholders	$ 0.76	$ 0.37	$ 1.31
Weighted average Common Shares outstanding – diluted	72,079	59,320	61,782
Dividends declared and paid per common share	$ 1.70	$ 1.70	$ 1.70
Net income available for common stockholders:			
Income/(loss) from continuing operations available for common stockholders	$ 29,282	$ (1,459)	$ 33,051
Income from discontinued operations available for common stockholders	22,496	23,539	41,932
Net income available for common stockholders	$ 51,778	$ 22,080	$ 74,983

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity

(in thousands, except share amounts)

For the Years Ended December 31, 2009, 2008 and 2007

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accumulated Other Compre-hensive Loss	Non-Controlling Interests in Consolidated Affiliates	Distri-butions in Excess of Net Earnings	Total
Balance at December 31, 2006, as previously reported	56,211,148	$ 562	$ 104,945	$ 92,500	$ 1,449,337	$ (1,515)	$ —	$ (538,098)	$ 1,107,731
Cumulative change from adoption of new accounting principle (see Note 1)	—	—	—	—	(116,077)	—	2,877	—	(113,200)
Balance at December 31, 2006, as adjusted	56,211,148	562	104,945	92,500	1,333,260	(1,515)	2,877	(538,098)	994,531
Cumulative change from measurement of uncertain tax liability	—	—	—	—	—	—	—	(1,424)	(1,424)
Issuances of Common Stock, net	692,281	7	—	—	7,060	—	—	—	7,067
Conversions of Common Units to Common Stock	55,836	1	—	—	2,165	—	—	—	2,166
Dividends on Common Stock	—	—	—	—	—	—	—	(96,554)	(96,554)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(13,477)	(13,477)
Adjustments to noncontrolling interests in the Operating Partnership	—	—	—	—	42,603	—	—	—	42,603
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	5,651	—	5,651
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(2,404)	—	(2,404)
Issuances of restricted stock, net	207,928	—	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(22,008)	(40,000)	2,037	—	—	(2,285)	(62,256)
	—	2	—	—	5,029	—	—	—	5,031

Share-based compensation expense									
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(5,671)	(5,671)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	679	(679)	—
Comprehensive income:									
Net income	—	—	—	—	—	—	—	97,095	97,095
Other comprehensive income	—	—	—	—	—	577	—	—	577
Total comprehensive income									97,672
Balance at December 31, 2007, as adjusted	57,167,193	572	82,937	52,500	1,392,154	(938)	6,803	(561,093)	972,935
Issuances of Common Stock, net	6,171,621	62	—	—	209,922	—	—	—	209,984
Conversions of Common Units to Common Stock	66,814	1	—	—	2,021	—	—	—	2,022
Dividends on Common Stock	—	—	—	—	—	—	—	(100,268)	(100,268)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(9,804)	(9,804)
Adjustments to noncontrolling interests in the Operating Partnership	—	—	—	—	3,826	—	—	—	3,826
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	625	—	625
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(3,293)	—	(3,293)
Issuances of restricted stock, net	166,077	—	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(53,845)	—	1,454	—	—	(108)	(52,499)
Share-based compensation expense	—	1	—	—	6,716	—	—	—	6,717
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(1,577)	(1,577)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	2,041	(2,041)	—

Comprehensive income:									
Net income	—	—	—	—	—	—	—	35,610	35,610
Other comprehensive loss	—	—	—	—	—	(3,854)	—	—	(3,854)
Total comprehensive income									31,756
Balance at December 31, 2008, as adjusted	63,571,705	$ 636	$ 29,092	$ 52,500	$ 1,616,093	$ (4,792)	$ 6,176	$ (639,281)	$ 1,060,424

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity – Continued

(in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accumulated Other Compre-hensive Loss	Non-Controlling Interests in Consolidated Affiliates	Distri-butions in Excess of Net Earnings	Total
Balance at December 31, 2008, as adjusted	63,571,705	636	29,092	52,500	1,616,093	(4,792)	6,176	(639,281)	1,060,424
Issuances of Common Stock, net	7,296,816	73	—	—	150,868	—	—	—	150,941
Conversions of Common Units to Common Stock	176,042	2	—	—	5,589	—	—	—	5,591
Dividends on Common Stock	—	—	—	—	—	—	—	(114,429)	(114,429)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(6,708)	(6,708)
Adjustments to noncontrolling interests in the Operating Partnership	—	—	—	—	(27,717)	—	—	—	(27,717)
Distributions to noncontrolling interests in consolidated affiliates	—	—		—	—	—	(1,004)	—	(1,004)
Issuances of restricted stock, net	240,740	—	—	—	—	—	—	—	—
Share-based compensation expense	—	2	—	—	6,565	—	—	—	6,567
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(3,197)	(3,197)
Net (income) attributable to noncontrolling	—	—	—	—	—	—	11	(11)	—

interests in consolidated affiliates									
Comprehensive income:									
Net income	—	—	—	—	—	—	—	61,694	61,694
Other comprehensive income	—	—	—	—	—	981	—	—	981
Total comprehensive income									62,675
Balance at December 31, 2009	71,285,303	$ 713	$ 29,092	$ 52,500	$ 1,751,398	$ (3,811)	$ 5,183	$ (701,932)	$ 1,133,143

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2009	2008	2007
Operating activities:			
Net income	$ 61,694	$ 35,610	$ 97,095
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	116,819	112,299	109,546
Amortization of lease commissions	15,064	15,321	14,318
Amortization of lease incentives	1,110	1,041	962
Share-based compensation expense	6,567	6,717	5,031
Amortization of deferred financing costs	2,760	2,716	2,415
Amortization of accumulated other comprehensive loss/(income)	(249)	181	577
Impairment of assets held for use	13,518	32,846	789
Gains on debt extinguishment	(1,287)	—	—
Gains on disposition of property	(21,732)	(19,266)	(55,039)
Gains on disposition of for-sale residential condominiums	(922)	(5,617)	—
Gain from property insurance settlement	—	—	(4,128)
Equity in earnings of unconsolidated affiliates	(5,421)	(5,878)	(13,110)
Release of uncertain tax liability	—	—	(1,424)
Changes in financing obligations	392	80	454
Distributions of earnings from unconsolidated affiliates	4,180	5,994	4,462
Changes in operating assets and liabilities:			
Accounts receivable	336	(1,876)	481
Prepaid expenses and other assets	(2,629)	(352)	(2,152)
Accrued straight-line rents receivable	(4,037)	(5,963)	(7,418)
Accounts payable, accrued expenses and other liabilities	2,957	(16,031)	8,804
Net cash provided by operating activities	189,120	157,822	161,663
Investing activities:			
Additions to real estate assets and deferred leasing costs	(151,482)	(231,422)	(287,491)
Net proceeds from disposition of real estate assets	77,288	64,858	144,646
Net proceeds from property insurance settlement	—	—	4,940
Net proceeds from disposition of for-sale residential condominiums	12,196	27,140	—
Distributions of capital from unconsolidated affiliates	3,955	3,214	19,258
	459	1,624	2,918

Net repayments of notes receivable			
Contributions to unconsolidated affiliates	(952)	(12,741)	(4,716)
Changes in restricted cash and other investing activities	(3,288)	12,984	(30,259)
Net cash used in investing activities	(61,824)	(134,343)	(150,704)
Financing activities:			
Dividends on Common Stock	(114,429)	(100,268)	(96,554)
Redemptions/repurchases of Preferred Stock	—	(52,499)	(62,256)
Dividends on Preferred Stock	(6,708)	(9,804)	(13,477)
Distributions to noncontrolling interests in the Operating Partnership	(6,832)	(6,678)	(7,164)
Distributions to noncontrolling interests in consolidated affiliates	(1,004)	(3,293)	(2,404)
Net proceeds from the issuance of Common Stock	150,941	209,984	7,067
Repurchase of Common Units from noncontrolling interests	—	(3,293)	(27,468)
Borrowings on revolving credit facility	128,000	462,183	399,800
Repayments on revolving credit facility	(291,000)	(526,983)	(545,500)
Borrowings on mortgages and notes payable	217,215	192,300	424,431
Repayments of mortgages and notes payable	(188,501)	(173,259)	(101,970)
Borrowings on financing obligations	4,184	—	—
Payments on financing obligations	(1,044)	(977)	(913)
Contributions from noncontrolling interests in consolidated affiliates	—	625	5,651
Additions to deferred financing costs	(8,176)	(900)	(3,752)
Net cash used in financing activities	(117,354)	(12,862)	(24,509)
Net increase/(decrease) in cash and cash equivalents	9,942	10,617	(13,550)
Cash and cash equivalents at beginning of the period	13,757	3,140	16,690
Cash and cash equivalents at end of the period	$ 23,699	$ 13,757	$ 3,140

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows – Continued

(in thousands)

Supplemental disclosure of cash flow information:

	Years Ended December 31,		
	2009	2008	2007
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financing arrangements of $486, $1,579 and $2,148 for 2009, 2008 and 2007, respectively)	$ 85,422	$ 97,518	$ 88,867

Supplemental disclosure of non-cash investing and financing activities:

	Years Ended December 31,		
	2009	2008	2007
Unrealized gains/(losses) on cash flow hedges	$ 937	$ (1,376)	$ —
Conversion of Common Units to Common Stock	$ 5,591	$ 2,022	$ 2,166
Changes in accrued capital expenditures	$ (19,098)	$ (7,833)	$ (11,864)
Write-off of fully depreciated real estate assets	$ 33,006	$ 34,633	$ 18,341
Write-off of fully amortized deferred financing and leasing costs	$ 19,194	$ 14,705	$ 9,708
Unrealized gains/(losses) on marketable securities held in our non-qualified deferred compensation plan	$ 1,497	$ (2,177)	$ (128)
Mark-to-market adjustment to noncontrolling interests in the Operating Partnership	$ 27,717	$ (3,826)	$ 42,603
Assumption of mortgages payable to acquire real estate assets	$ —	$ 8,348	$ —
Issuance of Common Units to acquire real estate assets	$ —	$ 6,325	$ —
Unrealized gains/(losses) on tax increment financing bond	$ 293	$ (2,659)	$ —

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business and Significant Accounting Policies

Description of Business

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

The Company is the sole general partner of the Operating Partnership. At December 31, 2009, the Company owned all of the Preferred Units and 70.9 million, or 94.8%, of the Common Units in the Operating Partnership. Limited partners, including one officer and two directors of the Company, own the remaining 3.9 million Common Units. In the event the Company issues shares of Common Stock, the proceeds of the issuance are contributed to the Operating Partnership in exchange for additional Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company’s Common Stock, $.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During 2009, the Company redeemed 176,042 Common Units for a like number of shares of Common Stock. In June 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of $144.1 million. The net impact of this offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% at December 31, 2008 to 94.8% at December 31, 2009.

At December 31, 2009, the Company and/or the Operating Partnership wholly owned: 307 in-service office, industrial and retail properties, comprising 27.8 million square feet; 96 rental residential units; 581 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; and an additional three office and industrial properties that are in service but not yet stabilized and 40 for-sale condominiums (which are owned through a consolidated, majority-owned joint venture). In addition, we owned interests (50.0% or less) in 70 in-service office and industrial properties, one office property under development, 53 acres of undeveloped land suitable for future development and 418 rental residential units, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company’s Consolidated Financial Statements, but not included in the Operating Partnership’s Consolidated Financial Statements. Five of the 50.0% or less owned in-service office properties are consolidated as more fully described below and in Notes 3, 7 and 9 to our Consolidated Financial Statements.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). Our Consolidated Balance Sheet at December 31, 2008 was revised from previously reported amounts to reflect in real estate and other assets, net, held for sale those properties held for sale at December 31, 2009 and the retroactive accounting modifications described below. The Consolidated Statements of Income for the years ended December 31, 2008 and 2007 were also revised from previously reported amounts to

reflect in discontinued operations the operations for those properties sold or held for sale during 2009 which qualified for discontinued operations presentation and the retroactive accounting modifications described below.

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

Beginning in the first quarter of 2009, we were required to present noncontrolling interests, defined as the portion of equity in a subsidiary not attributable directly or indirectly to the parent, as a separate component of equity in the Consolidated Balance Sheets subject to existing requirements for the classification and measurement of redeemable securities. Additionally, we were required to modify the presentation of net income by attributing earnings and other comprehensive income to controlling and noncontrolling interests. These accounting changes were required to be retroactively applied for all periods presented. Below are the steps we have taken as a result of retroactively applying these changes to previously reported amounts:

- We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled $6.2 million, $6.8 million and $2.9 million at December 31, 2008, 2007 and 2006, respectively.

- We no longer deduct net income attributable to noncontrolling interests in consolidated affiliates and the Operating Partnership when determining net income. As a result, net income for the years ended December 31, 2008 and 2007 increased $3.6 million and $6.4 million, respectively, from the previously reported amounts. The adoption of these requirements had no effect on our net income available for common stockholders or our earnings per common share.

- We have adjusted noncontrolling interests in the Operating Partnership so that the carrying value equals the greater of historical cost or redemption value and continue to present it in the mezzanine section of our Consolidated Balance Sheets because the noncontrolling interest holders may compel the Operating Partnership, at their discretion, to redeem the Common Units, as previously discussed. We record the offset to this adjustment through additional paid-in capital since distributions are in excess of earnings. As a result, noncontrolling interests in the Operating Partnership at December 31, 2008 increased $45.6 million from the previously reported amount. Additional paid-in capital at December 31, 2008, 2007 and 2006 increased/(decreased) by $45.6 million, $55.9 million and $(116.1) million, respectively, from the previously reported amounts.

Beginning in the first quarter of 2009, we also were required to include our total number of restricted Common Shares outstanding in the calculation of weighted average Common Shares outstanding, basic and diluted, for all periods presented. As a result, for the year ended December 31, 2008, weighted average Common Shares outstanding, basic and diluted, are 516,725 and 253,725 shares higher than previously reported, respectively. For the year ended December 31, 2007, weighted average Common Shares outstanding, basic and diluted, are 485,002 and 234,511 shares higher than previously reported, respectively. Basic earnings per common share for each of the years ended December 31, 2008 and 2007 was $0.01 lower than previously reported. Diluted earnings per common share for the year ended December 31, 2008 was $0.01 lower than previously reported and diluted earnings per common share for the year ended December 31, 2007 was unchanged from the previously reported amount.

The Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. We consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership or in our capacity as general partner or managing member. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At December 31, 2009, we had involvement with no entities that we deemed to be variable interest entities. All significant intercompany transactions and accounts have been eliminated.

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.

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

Real Estate and Related Assets

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

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

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

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

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

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

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

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

The value of a customer relationship is based on our overall relationship with the respective customer. Factors considered include the customer's credit quality and expectations of lease renewals. The value of a customer relationship is amortized to depreciation and amortization expense over the initial term and any renewal periods defined in the respective leases.

Real estate and other assets are classified as long-lived assets held for use and as long-lived assets held for sale. Real estate is classified as held for sale when we believe a sale is probable. We believe a sale is probable when we execute a legally enforceable contract on terms that have been approved by the Company's Board, or a committee thereof, and the probable buyer's due diligence investigation period, if any, has expired. This determination requires us to make estimates and assumptions, including assessing the probability that potential sales transactions may or may not occur. Actual results could differ from those assumptions.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances, such as a significant decline in occupancy, change in our designation of an asset as a core or non-core holding or market value less than cost, indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, costs to operate each property, and expected ownership periods. If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

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

Sales of Real Estate

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

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

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

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Our total receivables balance related to our customers is comprised primarily of rents and operating cost recoveries as well as accrued straight-line rents receivable. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the expected recovery through bankruptcy claims and increase the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of accounts receivable and accrued straight-line rents receivable prove incorrect, we could experience write-offs of accounts receivable or accrued straight-line rents receivable in excess of our allowance for doubtful accounts.

Rental and Other Revenues

Rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Termination fees are recognized as revenue when the following four conditions are met: a fully executed lease termination agreement has been delivered; the customer has vacated the space; the amount of the fee is determinable; and collectability of the fee is reasonably assured.

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

Discontinued Operations

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

Lease Incentives

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

Investments in Unconsolidated Affiliates

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

From time to time, we may contribute real estate assets to a joint venture in exchange for a combination of cash and an equity interest in the venture. In such instances, we assess whether we have continuing involvement in the joint venture and account for the transaction according to the nature and extent of such involvement. If the sales price is reasonably assured and we are not required to support the operations of the property or its related obligations to an extent greater than our proportionate interest, a gain is recognized to the extent of the third party investor’s interest and we account for our interest in the joint venture using the equity method. If these criteria have not been met, the transaction is accounted for as a financing or profit-sharing arrangement, leasing arrangement or other alternate method of accounting other than as a completed sale.

Additionally, our joint ventures will frequently borrow funds on their own behalf to finance the acquisition of, and/or leverage the return upon, the properties being acquired by the joint ventures or to build or acquire additional buildings. Such borrowings are typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt (see Note 8). In most cases, we and/or our joint venture partners are required to agree to customary limited exceptions on non-recourse loans.

Cash Equivalents

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

Restricted Cash

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

Income Taxes

We have elected and expect to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, we are required to pay dividends to our stockholders equal to at least 90.0% of our annual REIT taxable income, excluding capital gains. Under temporary IRS regulations, for 2010 and 2011, distributions can be paid partially using a REIT’s freely-tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash.

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

Concentration of Credit Risk

We perform ongoing credit evaluations of our customers. At December 31, 2009, the wholly owned properties, defined as in-service properties (excluding rental residential units) to which we have title and 100.0% ownership rights (“Wholly Owned Properties”), were leased to 1,719 customers in nine primary geographic locations. The geographic locations that comprise greater than 10.0% of our annualized cash rental revenue are Raleigh, NC, Tampa, FL, Atlanta, GA, Nashville, TN and Kansas City, MO. Our customers engage in a wide variety of businesses. No single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues during 2009.

We maintain our cash and cash equivalents and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution may exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Derivative Financial Instruments

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to

various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock and similar agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

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

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

Earnings Per Share

Basic earnings per share is computed by dividing net income available for common stockholders by the weighted Common Shares outstanding - basic. Diluted earnings per share is computed by dividing net income available to common stockholders plus noncontrolling interests in the Operating Partnership by the weighted Common Shares outstanding – basic plus the dilutive effect of options, warrants and convertible securities outstanding, including Common Units, using the treasury stock method.

Recently Issued Accounting Standards

Beginning in the first quarter of 2010, we will be required to perform an ongoing assessment to determine whether each entity in which we have an equity interest is a variable interest entity that should be consolidated if qualitative factors indicate we have the controlling interest. This accounting change is required to be retroactively applied for all periods presented. The adoption of this new requirement is not expected to have a material impact on our financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. Real Estate Assets

Acquisitions

In 2009, we acquired a 220,000 square foot office building in Tampa, FL for a total investment of $24.7 million, including approximately $2.4 million of building improvements and other costs related to this acquisition. In 2008, we acquired a 135,000 square foot office building in Memphis, TN in exchange for 183,587 Common Units and the assumption of $7.8 million of 8.15% secured debt, both of which were recorded at fair value of $6.3 million and $8.4 million, respectively. In 2007, we made no significant acquisitions.

Dispositions

In 2009, we sold 517,000 square feet of non-core retail and office properties for gross proceeds of $78.2 million and recorded gains of $21.7 million. A 30,000 square foot office property disposition for $4.2 million was accounted for as a financing arrangement as described in Note 7. In 2008, we sold 744,000 square feet of office and industrial properties for gross proceeds of approximately $56.8 million and recorded net gains of $17.9 million. We also sold 38 acres of non-core land for gross sale proceeds of $9.2 million and recorded a net gain of $0.3 million. In 2007, we sold 1,240,000 square feet of office and industrial properties for gross proceeds of $113.9 million and recorded gains of $34.7 million. We also sold 133 acres of non-core land for gross sale proceeds of $37.4 million and recorded gains of $16.6 million.

Impairments

We recorded impairment of assets held for use located in Winston-Salem and Greensboro, NC of $13.5 million in 2009 and $32.8 million in 2008. The 2009 impairment related to 12 office properties, 11 of which were previously impaired in 2008, six industrial properties and two retail properties. We recorded an impairment of $0.8 million in 2007 related to one land parcel. Impairments can arise from a number of factors which are subject to change; accordingly, we may be required to take additional impairment charges in the future.

Development

We currently have two office properties and one industrial property recently completed, but not yet stabilized, aggregating 501,000 square feet. We define “stabilized” as the earlier of the original projected stabilization date or the date such project is at least 95% occupied. The aggregate cost, including leasing commissions, of these properties currently is expected to be $69.2 million when fully leased, of which $64.2 million had been incurred at December 31, 2009. The dollar weighted average pre-leasing of these properties was approximately 43% at December 31, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet at December 31, 2009.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments

Unconsolidated Affiliates

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

Investments in unconsolidated affiliates consisted of the following at December 31, 2009:

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

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

Combined summarized financial information for our unconsolidated affiliates is as follows:

	December 31, 2009	December 31, 2008
Balance Sheets:		
Assets:		
Real estate assets, net	$ 683,257	$ 718,977
All other assets, net	118,513	115,688
Total Assets	$ 801,770	$ 834,665
Liabilities and Partners' or Shareholders' Equity:		
Mortgages and notes payable (1)	$ 594,084	$ 616,145
All other liabilities	32,855	33,546
Partners' or shareholders' equity	174,831	184,974
Total Liabilities and Partners' or Shareholders' Equity	$ 801,770	$ 834,665
Our share of historical partners' or shareholders' equity	$ 34,631	$ 37,323
Net excess of cost of investments over the net book value of underlying net assets (2)	19,038	18,721
Carrying value of investments in unconsolidated affiliates, net of negative investment balances included in other liabilities (3)	$ 53,669	$ 56,044
Our share of unconsolidated non-recourse mortgage debt (1)	$ 238,555	$ 246,686

(1) Our share of future principal payments, including amortization, due on mortgages and notes payable at December 31, 2009 is as follows:

2010	$ 10,343
2011	6,296
2012	40,253
2013	23,618
2014	61,610
Thereafter	96,435
	$ 238,555

All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) guarantees (see Note

8).

(2) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the joint venture level, which is typically depreciated over the life of the related asset. In addition, certain acquisition, transaction and other costs may not be reflected in net assets at the joint venture level.

(3) During the third quarter of 2006, three of our Des Moines joint ventures made cash distributions aggregating $17.0 million in connection with a debt refinancing. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. Although the new debt is non-recourse, we and our partner have guaranteed other debt and have contractual obligations to support the joint ventures, as discussed in Note 8. We recorded the distributions as a reduction of our investment account and included the resulting negative investment balances of $12.4 million and $11.7 million in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

	Years Ended December 31,		
	2009	2008	2007
Income Statements:			
Rental and other revenues	$ 149,856	$ 161,593	$ 143,594
Expenses:			
Rental property and other expenses	72,344	79,647	62,194
Depreciation and amortization	35,537	34,702	30,896
Interest expense	35,245	36,117	34,259
Total expenses	143,126	150,466	127,349
Income before disposition of properties	6,730	11,127	16,245
Gains on disposition of properties	2,963	—	20,621
Net income	$ 9,693	$ 11,127	$ 36,866
Our share of:			
Net income (1)	$ 5,421	$ 5,878	$ 13,110
Depreciation and amortization of real estate assets	$ 12,839	$ 12,751	$ 13,438
Interest expense	$ 14,074	$ 14,587	$ 14,415
Net gain on disposition of depreciable properties	$ 582	$ —	$ 7,158

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures' net income due to our purchase accounting and other adjustments related primarily to management and leasing fees.

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

- Kessinger/Hunter, LLC

Kessinger/Hunter, LLC, which is managed by our joint venture partner, previously provided property management, leasing, brokerage and certain construction related services to certain of our Wholly Owned Properties in Kansas City, MO. These services were reduced by us to only leasing-related services in 2009. Kessinger/Hunter, LLC received $0.5 million, $2.6 million and $3.8 million from us for these services in 2009, 2008 and 2007, respectively.

- Highwoods DLF 98/29, LLC ("DLF I")

At the formation of this joint venture, our partner contributed excess cash to the venture that was distributed to us under the joint venture agreements. We are required to repay this excess cash to our partner over time, as discussed in Note 8.

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

In 2007, DLF I sold five properties to a third party for gross proceeds of $34.2 million and recorded a gain of $9.3 million related to this sale. We recorded $2.1 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in 2007. Also, DLF I acquired Eola Park Centre, a 167,000 square foot office building in Orlando, FL, for $39.3 million and obtained a $27.7 million loan secured by the property.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

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

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

- Highwoods-DLF Forum, LLC ("DLF Forum")

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

- HIW-KC Orlando, LLC ("KC Orlando")

We made certain commitments to this joint venture as discussed in Note 8 at the time of the formation, which reduced our gain on the partial sale. In the event that unused commitments expire, we record additional gains on disposition of property as a component of income from continuing operations due to our significant continuing involvement with the joint venture.

- HIW Development B, LLC

In 2009, we contributed $0.3 million to this joint venture for a 10% ownership interest. Simultaneous with the formation, this joint venture acquired land for $3.4 million to be used for development. This joint venture is constructing a build-to-suit office property in Charlotte, NC for which we will receive customary development fees.

- Weston Lakeside, LLC

In 2007, Weston Lakeside, LLC, an unconsolidated affiliate in which we had a 50.0% ownership interest, sold 332 rental residential units located in the Raleigh, NC metropolitan area to a third party for gross proceeds of $45.0 million and paid off all of the outstanding debt and various development related costs. The joint venture recorded a gain of $11.3 million in 2007 related to this sale. We recorded $5.0 million as our proportionate share through equity in earnings of unconsolidated affiliates in 2007. Our share of the gain was less than 50.0% due to our joint venture partner's preferred return as the developer. We received aggregate net distributions of $6.2 million.

- Other Activities

We receive development, management and leasing fees for services provided to certain of our joint ventures. These fees are recognized as income to the extent of our respective joint venture partner's interest in rental and other

revenues. In the years ended December 31, 2009, 2008 and 2007, we recognized $2.1 million, $2.1 million and $2.2 million, respectively, of development, management and leasing fees from our unconsolidated joint ventures.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

Consolidated Affiliates

The following summarizes our consolidated affiliates:

- Highwoods-Markel Associates, LLC (“Markel”)

We have a 50.0% ownership interest in Markel. We are the manager and leasing agent for Markel’s properties located in Richmond, VA and receive customary management and leasing fees. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. The organizational documents of Markel require the entity to be liquidated through the sale of its assets upon reaching December 31, 2100. As controlling partner, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the noncontrolling interest partner in these partially owned properties only if the net proceeds received by the entity from the sale of our assets warrant a distribution as determined by the agreement. We estimate the value of noncontrolling interest distributions would have been approximately $12.9 million had the entity been liquidated at December 31, 2009. This estimated settlement value is based on the fair value of the underlying properties which is based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates and costs to operate each property. If the entity’s underlying assets are worth less than the underlying liabilities on the date of such liquidation, we would have no obligation to remit any consideration to the noncontrolling interest holder.

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

We have a 20.0% interest in Harborview. We are the manager and leasing agent for Harborview’s property located in Tampa, FL and receive customary management and leasing fees. As further described in Note 7, we account for this joint venture as a financing obligation since our partner has the right to put its interest back to us in the future.

- Plaza Residential, LLC (“Plaza Residential”)

In 2007, through our taxable REIT subsidiary, we contributed $10.6 million for a majority owned interest in Plaza Residential, which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower being developed by us in Raleigh, NC. Our partner has a 7.0% ownership interest in the joint venture, performed development services for the joint venture for a market development fee, guaranteed 40.0% of the construction financing and will receive 35.0% of the net profits from the joint venture once the partners have received distributions equal to their equity plus a 12.0% return on their equity. We consolidate this joint venture since we own the majority interest. We have estimated our net economic interest through the completion of this project to be approximately 86.0% at December 31, 2009 and have recorded our partner’s noncontrolling interest accordingly. Our estimate of our partner’s economic ownership, which is impacted by our partner’s preferred return, decreased from 25%

at December 31, 2008 to 14% at December 31, 2009 due to changes in our assumptions related primarily to projected timing of sales and estimated net gains.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

For-sale residential condominiums in our Consolidated Balance Sheets include completed, but unsold, condominium inventory owned by Plaza Residential at December 31, 2009 and 2008. We initially record receipts of deposits as other liabilities in our Consolidated Balance Sheets in accordance with the deposit method. We then record completed sales when units close and the remaining net cash is received. We recognize forfeiture of earnest money deposits into income when entitled to claim the forfeited deposit upon legal default. During 2009 and 2008, we received $13.0 million and $28.6 million, respectively, in gross revenues and recorded $12.0 million and $23.0 million, respectively, of cost of goods sold from condominium sales activity. Net gains on for-sale residential condominiums in our Consolidated Statements of Income include gains on the sale of for-sale residential condominiums and forfeitures of earnest money deposits of $0.3 million and $0.6 million, respectively, for the year ended December 31, 2009. Gains on for-sale residential condominiums in our Consolidated Statement of Income include gains on the sale of for-sale residential condominiums and forfeitures of earnest money deposits of $4.4 million and $1.2 million, respectively, for the year ended December 31, 2008. We had no such gains or forfeitures in 2007.

4. Deferred Financing and Leasing Costs

At December 31, 2009 and 2008, we had deferred financing costs of $16.8 million and $14.7 million, respectively, with accumulated amortization of $4.5 million and $7.8 million, respectively. At December 31, 2009 and 2008, we had deferred leasing costs of $108.8 million and $110.8 million, respectively, with related accumulated amortization of $47.6 million and $44.7 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for the years ended December 31, 2009, 2008 and 2007 was $17.8 million, $18.0 million and $16.7 million, respectively. Aggregate amortization of lease incentives (included in rental and other revenues) for the years ended December 31, 2009, 2008 and 2007 was $1.1 million, $1.0 million and $1.0 million, respectively.

The following table sets forth scheduled future amortization for deferred financing and leasing costs at December 31, 2009:

Years Ending December 31,	Amortization
2010	$ 17,465
2011	14,866
2012	12,222
2013	8,504
2014	6,051
Thereafter	14,409
	$ 73,517

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable

Our consolidated mortgages and notes payable consist of the following:

	December 31,	
	2009	2008
Secured indebtedness: (1)		
7.77% mortgage loan due 2009	$ —	$ 78,016
7.87% mortgage loan due 2009	—	30,685
7.05% mortgage loan due 2012	188,088	190,000
6.03% mortgage loan due 2013	130,739	133,241
5.68% mortgage loan due 2013	115,958	118,535
6.88% mortgage loans due 2016	114,610	—
7.5% mortgage loan due 2016	47,108	—
5.74% to 9.00% mortgage loans due between 2009 and 2016 (2), (3)	82,483	83,840
Variable rate construction loans due between 2009 and 2010 (4)	41,741	20,869
	720,727	655,186
Unsecured indebtedness:		
8.125% notes due 2009	—	50,000
5.85% notes due 2017 (5)	390,928	398,999
7.50% notes due 2018	200,000	200,000
Variable rate term loans due between 2011 and 2012 (6)	157,500	137,500
Revolving credit facility due 2013 and 2010, respectively	—	163,000
	748,428	949,499
Total	$ 1,469,155	$ 1,604,685

(1) The mortgage loans payable are secured by real estate assets with an aggregate undepreciated book value of approximately $1.2 billion at December 31, 2009. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term or are prepayable subject to certain conditions including prepayment penalties.

(2) Includes mortgage debt related to SF-HIW Harborview Plaza, LP., a consolidated 20.0% owned joint venture, of $21.9 million and $22.3 million at December 31, 2009 and 2008, respectively. See Note 7.

(3) Includes mortgage debt related to Markel, a consolidated 50.0% owned joint venture, of $35.8 million and $36.6 million at December 31, 2009 and 2008, respectively. See Note 9.

(4) Stated maturity date does not reflect two one-year extension options related to amounts outstanding on our $70.0 million secured construction facility.

(5) This amount is net of amortized original issuance discount of $0.9 million and $1.0 million at December 31, 2009 and 2008, respectively.

(6) The effective interest rates are 3.90% and 1.33% on our $20.0 million and $137.5 million term loans, respectively, as of December 31, 2009.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable - Continued

The following table sets forth the future principal payments, including amortization, due on our mortgages and notes payable at December 31, 2009:

Years Ending December 31,	Principal Amount
2010 (1)	$ 52,860
2011	149,344
2012	240,214
2013	242,782
2014	34,664
Thereafter	749,291
	$ 1,469,155

(1) This amount does not reflect two one-year extension options related to amounts outstanding under our $70.0 million secured construction facility.

In 2009, we obtained a new $400.0 million unsecured revolving credit facility, which replaced our previously existing revolving credit facility. Our new revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional $50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our new revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There were no amounts outstanding under our revolving credit facility at December 31, 2009 and February 3, 2010. At December 31, 2009 and February 3, 2010, we had $1.7 million and $1.6 million, respectively, of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2009 and February 3, 2010 was $398.3 and $398.4 million, respectively.

Our $70.0 million secured construction facility, of which $41.7 million was outstanding at December 31, 2009, is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had $28.3 million of availability at December 31, 2009 and February 3, 2010.

In 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes and retired the remaining $107.2 million principal amount of a two-tranched secured loan. We also obtained a $20.0 million, three-year unsecured term loan, a $115.0 million, six and a half-year secured loan and a $47.3 million, seven-year secured loan. We also repurchased $8.2 million principal amount of unsecured notes due 2017.

Debt Covenants

We are currently in compliance with all debt covenants and requirements. 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable - Continued

Our revolving credit facility, $137.5 million bank term loan due in February 2011 and $20.0 million bank term loan due in March 2012 also require us to comply with customary operating covenants and various financial requirements, including a requirement that we maintain a ratio of total liabilities to total asset value, as defined in the respective agreements, of no more than 60%. Total asset value depends upon the effective economic capitalization rate (after deducting capital expenditures) used to determine the value of our buildings. Depending upon general economic conditions, the lenders have the good faith right to unilaterally increase the capitalization rate by up to 25 basis points once in any twelve-month period. The lenders have not previously exercised this right. Any such increase in capitalization rates, without a corresponding reduction in total liabilities, could make it more difficult for us to maintain a ratio of total liabilities to total asset value of no more than 60%, which could have an adverse effect on our ability to borrow additional funds under the revolving credit facility. If we were to fail to make a payment when due with respect to any of our other obligations with aggregate unpaid principal of $10.0 million, and such failure remains uncured for more than 120 days, the lenders under our credit facility could provide notice of their intent to accelerate all amounts due thereunder. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has $390.9 million principal amount of 2017 bonds outstanding and $200.0 million principal amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios, including a requirement that we maintain unencumbered assets of at least 200% of all outstanding unsecured debt. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

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

Other Information

Total interest capitalized to development projects was $4.6 million, $8.3 million and $9.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

6. Derivative Financial Instruments

We terminated our last open interest rate swap in December 2009. We have no outstanding interest rate derivatives at December 31, 2009.

The following table sets forth the fair value of our prior derivative instruments:

	Fair Value as of December 31,	
	2009	2008
Liability Derivatives:		
Derivatives designated as cash flow hedges in other liabilities:		
Interest rate swaps	$ —	$ 1,376

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. Derivative Financial Instruments - Continued

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

	Years Ended December 31,		
	2009	2008	2007
Derivatives Designated as Cash Flow Hedges:			
Amount of unrealized gain/(loss) recognized in AOCL on derivatives (effective portion):			
Interest rate swaps	$ 937	$ (1,376)	$ —
Amount of (gain)/loss reclassified out of AOCL into interest expense (effective portion):			
Interest rate swaps	$ (249)	$ 181	$ 577

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

	Years Ended December 31,		
	2009	2008	2007
Derivatives Not Designated as Hedging Instruments:			
Amount of gain/(loss) recognized in interest expense on derivative:			
Interest rate swaps	$ —	$ 183	$ (183)

7. Financing Arrangements

Our financing obligations consist of the following:

	December 31,	
	2009	2008
SF-HIW Harborview, LP financing obligation	$ 16,957	$ 16,604
Tax increment financing bond	15,374	16,418
Repurchase obligation	4,184	—
Capitalized ground lease obligation	1,191	1,152
Total	$ 37,706	$ 34,174

Harborview

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Financing Arrangements - Continued

As a result, we have established a financing obligation equal to the net equity contributed by the other partner. At the end of each reporting period, the balance of the gross financing obligation is adjusted to equal the greater of the original financing obligation of $12.7 million or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was $12.2 million and $13.9 million at December 31, 2009 and 2008, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books. At such time as the put option expires or is otherwise terminated, we will record the transaction as a sale and recognize gain on sale.

Tax Increment Financing Bond

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

Repurchase Obligation

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

Capitalized Ground Lease Obligation

The capitalized ground lease obligation represents an obligation to the lessor of land on which we constructed a building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated at the inception

of the lease using a discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes into interest expense each month for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

8. Commitments and Contingencies

Operating Ground Leases

Certain Wholly Owned Properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the consumer price index or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was $1.6 million, $1.4 million and $1.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Commitments and Contingencies - Continued

The following table sets forth our obligations for future minimum payments on operating ground leases at December 31, 2009:

2010	$ 1,110
2011	1,129
2012	1,150
2013	1,171
2014	1,193
Thereafter	31,114
	$ 36,867

Other Capitalized Lease Obligations

We have other capitalized lease obligations of $0.2 million and $0.1 million related to office equipment, which is included in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

Completion Contracts

We have approximately $6.7 million of completion contracts at December 31, 2009. Completion contracts are defined as payments to be made under current contracts for various construction projects, which we expect to pay in 2010.

Environmental Matters

Substantially all of our in-service and development properties have been subjected to Phase I environmental assessments and, in certain instances, Phase II environmental assessments. Such assessments and/or updates have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our Consolidated Financial Statements. We have $0.2 million and $0.1 million reserved for environmental matters, which is included in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

DLF I Obligation

At the formation of DLF I, the amount our partner contributed in cash to the venture and subsequently distributed to us was determined to be $7.2 million in excess of the amount required based on its ownership interest and the agreed-upon value of the real estate assets. We are required to repay this amount over 14 years, beginning in the first quarter of 1999. The $7.2 million was discounted to net present value of $3.8 million using a discount rate of 9.62%

specified in the agreement. Payments of $0.6 million were made in each of the years ended December 31, 2009, 2008 and 2007, of which $0.2 million represented imputed interest expense. The balance at December 31, 2009 and 2008 is $1.6 million and $2.0 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Commitments and Contingencies - Continued

Guarantees and Other Obligations

All of our joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees set forth in the following table:

Guarantee Type	Entity	Location	Maturity Date	Maximum Potential Obligation	Accrual at December 31, 2009
Indirect debt	Three Fountains	Des Moines	8/2019	$ 1,718	$ 385
Debt	RRHWoods/ DCP	Des Moines	7/2014	$ 1,336	$ 49
Debt	RRHWoods	Des Moines	11/2011	$ 2,795	$ 15
Indirect debt	RRHWoods	Des Moines	9/2015	$ 3,112	$ 245

At the formation of the KC Orlando joint venture, we committed to fund certain future leasing costs. The remaining commitment at December 31, 2009 and 2008 was $0.1 million and $0.2 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

Litigation, Claims and Assessments

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

9. Noncontrolling Interests

Beginning in the first quarter of 2009, we have modified the measurement and presentation of noncontrolling interests for all periods presented, as described in Note 1.

Noncontrolling Interests in the Operating Partnership

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Noncontrolling Interests - Continued

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

	Years Ended December 31,	
	2009	2008
Beginning noncontrolling interests in the Operating Partnership	$ 111,278	$ 119,195
Mark-to-market adjustment to noncontrolling interests in the Operating Partnership	27,717	(3,826)
Units issued to noncontrolling interests in the Operating Partnership	—	6,325
Conversion of Common Units to Common Stock	(5,591)	(2,022)
Repurchase of Common Units from noncontrolling interests	—	(3,293)
Net income attributable to noncontrolling interests in the Operating Partnership	3,197	1,577
Distributions to noncontrolling interests in the Operating Partnership	(6,832)	(6,678)
Total noncontrolling interests in the Operating Partnership	$ 129,769	$ 111,278

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

	Years Ended December 31,		
	2009	2008	2007
Net income available for common stockholders	$ 51,778	$ 22,080	$ 74,983
Increase in additional paid in capital from conversion of Common Units to Common Stock	5,589	2,021	2,165
Change from net income available for common stockholders and transfers from noncontrolling interests	$ 57,367	$ 24,101	$ 77,148

Noncontrolling Interests in Consolidated Affiliates

Noncontrolling interests in consolidated affiliates, a component of equity, relates to our respective joint venture partners' 50.0% interest in Markel and estimated 14% economic interest in Plaza Residential. Each of our joint venture partners is an unrelated third party.

10. 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 are comprised of Common Units not owned by the Company. Our Level 1 liabilities are our obligations to pay benefits under our deferred compensation plan.

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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Disclosure About Fair Value of Financial Instruments – Continued

Our Level 2 liability are interest rate swaps that were outstanding at December 31, 2008 whose fair value is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk.

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 that we acquired in the fourth quarter of 2007 (see Note 7), 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 December 31, 2009 impairment analysis, which were valued using independent appraisals.

Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates and costs to operate each property.

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

	December 31, 2009	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets)	$ 6,135	$ 6,135	$ —	$ —
Tax increment financing bond (in prepaid expenses and other assets)	16,871	—	—	16,871
Impaired real estate assets (see Note 2)	32,000	—	—	32,000
Total Assets	$ 55,006	$ 6,135	$ —	$ 48,871

Noncontrolling Interests in the Operating Partnership	$	129,769	$	129,769	$	—	$	—
Liabilities:								
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$	6,898	$	6,898	$	—	$	—
SF-Harborview Plaza, LP financing obligation		12,230		—		—		12,230
Total Liabilities	$	19,128	$	6,898	$	—	$	12,230

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Disclosure About Fair Value of Financial Instruments – Continued

	December 31, 2008	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets)	$ 5,422	$ 5,422	$ —	$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,468	—	—	17,468
Total Assets	$ 22,890	$ 5,422	$ —	$ 17,468
Noncontrolling Interests in the Operating Partnership	$ 111,278	$ 111,278	$ —	$ —
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ —	$ 1,376	$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,522	6,522	—	—
SF-Harborview Plaza, LP financing obligation	13,879	—	—	13,879
Total Liabilities	$ 21,777	$ 6,522	$ 1,376	$ 13,879

The following table sets forth our Level 3 asset and liability:

	December 31, 2009	December 31, 2008
Asset:		
Tax Increment Financing Bond		
Beginning balance	$ 17,468	$ —
Transfer into Level 3	—	20,541
Principal repayment	(890)	(790)
Unrealized gain/(loss) (in AOCL)	293	(2,283)
Ending balance	$ 16,871	$ 17,468
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance - gross financing obligation	$ 13,879	$ 14,155

Principal repayments	(487)	(1,579)
Interest expense on financing obligation	1,807	1,757
Unrealized gain	(2,481)	(454)
Ending balance - gross financing obligation	12,718	13,879
Valuation allowance, net	4,239	2,725
Net financing obligation	$ 16,957	$ 16,604

The tax increment financing bond is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value at December 31, 2009 was $2.4 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will 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. There is no legal right of offset with the liability recorded as a financing obligation related to this tax increment financing bond.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Disclosure About Fair Value of Financial Instruments – Continued

The SF-Harborview Plaza, LP financing obligation is carried at the greater of estimated fair value or original financing obligation of $12.7 million, net of the related valuation allowance as described in Note 7. The fair value was $12.2 million and $13.9 million at December 31, 2009 and 2008, respectively.

The following table sets forth the carrying amounts and fair values of our financial instruments:

	Carrying Amount	Fair Value
December 31, 2009		
Cash and cash equivalents	$ 23,699	$ 23,699
Restricted cash	$ 6,841	$ 6,841
Accounts and notes receivable	$ 24,212	$ 24,212
Marketable securities (in prepaid expenses and other assets)	$ 6,135	$ 6,135
Tax increment financing bond (in prepaid expenses and other assets)	$ 16,871	$ 16,871
Mortgages and notes payable	$ 1,469,155	$ 1,440,317
Financing obligations	$ 37,706	$ 31,664
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,898	$ 6,898
Noncontrolling interests in the Operating Partnership	$ 129,769	$ 129,769
December 31, 2008		
Cash and cash equivalents	$ 13,757	$ 13,757
Restricted cash	$ 2,258	$ 2,258
Accounts and notes receivable	$ 27,289	$ 27,289
Marketable securities (in prepaid expenses and other assets)	$ 5,422	$ 5,422
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,468	$ 17,468
Mortgages and notes payable	$ 1,604,685	$ 1,330,899
Financing obligations	$ 34,174	$ 32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ 1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,522	$ 6,522
Noncontrolling interests in the Operating Partnership	$ 111,278	$ 111,278

The fair values of our mortgages and notes payable and financing obligations were estimated using the income and market approaches to approximate the price that would be paid in an orderly transaction between market participants

on the measurement date. The carrying values of our cash and cash equivalents and accounts and notes receivable are equal to or approximate fair value.

11. Equity

Common Stock Offerings

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

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

11. Equity - Continued

Common Stock Dividends

Dividends declared and paid per share of Common Stock aggregated $1.70 for each of the years ended December 31, 2009, 2008 and 2007.

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

	Years Ended December 31,		
	2009	2008	2007
Ordinary income	$ 1.09	$ 0.97	$ 0.76
Capital gains	0.60	0.20	0.83
Return of capital	0.01	0.53	0.11
Total	$ 1.70	$ 1.70	$ 1.70

Our tax returns have not been examined by the IRS and, therefore, the taxability of dividends is subject to change.

Preferred Stock

The following table sets forth our Preferred Stock:

Preferred Stock Issuances	Issue Date	Number of Shares Outstanding (in thousands)	Carrying Value	Liquidation Preference Per Share	Optional Redemption Date	Annual Dividends Payable Per Share
December 31, 2009 and 2008:						
8.625% Series A Cumulative Redeemable	2/12/1997	29	$ 29,092	$ 1,000	2/12/2027	$ 86.25
8.000% Series B Cumulative Redeemable	9/25/1997	2,100	$ 52,500	$ 25	9/25/2002	$ 2.00

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

	Years Ended December 31,		
	2009	2008	2007
8.625% Series A Cumulative Redeemable:			
Ordinary income	$ 55.86	$ 71.20	$ 41.27
Capital gains	30.39	15.05	44.98
Total	$ 86.25	$ 86.25	$ 86.25
8.000% Series B Cumulative Redeemable:			
Ordinary income	$ 1.30	$ 1.65	$ 0.96
Capital gains	0.70	0.35	1.04
Total	$ 2.00	$ 2.00	$ 2.00

In 2008, we repurchased 53,845 outstanding 8.625% Series A Preferred Shares for an aggregate purchase price of $52.5 million. In connection with this repurchase, the $0.1 million excess of the purchase cost over the net carrying amount of the repurchased shares was recorded as a reduction to net income available for common stockholders in 2008.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

11. Equity - Continued

In 2007, we redeemed 1.6 million of our outstanding 8.000% Series B Preferred Shares, for an aggregate purchase price of $40.0 million. In connection with this redemption, the $1.4 million excess of the redemption cost over the net carrying amount of the redeemed shares was recorded as a reduction to net income available for common stockholders in 2007. In 2007, we also repurchased 22,008 of our outstanding 8.625% Series A Preferred Shares for an aggregate purchase price of $22.3 million. In connection with this repurchase, the $0.8 million excess of the purchase cost over the net carrying amount of the repurchased shares was recorded as a reduction to net income available for common stockholders in 2007.

Warrants

Warrants to acquire Common Stock were issued in 1997 and 1999 in connection with property acquisitions. In 2009, there were no warrants exercised. In 2008, 10,000 warrants with an exercise price of $32.50 were exercised. In 2007, 10,000 warrants with an exercise price of $34.13 were exercised. At December 31, 2009, there are 15,000 warrants outstanding with an exercise price of $32.50. These warrants have no expiration date.

Dividend Reinvestment Plan

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

12. Employee Benefit Plans

Officer, Management and Director Compensation Programs

Our officers participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. In addition to considering the pay practices of our peer group in determining each officer’s incentive payment percentage, the officer’s ability to influence our performance is also considered. Each officer has a target annual non-equity incentive payment percentage that ranges from 20% to 130% of base salary depending on the officer’s position. The officer’s actual incentive payment for the year is the product of the target annual incentive payment percentage times a “performance factor,” which can range from zero to 200%. This performance factor depends upon the relationship between how various performance criteria compare with predetermined goals. For an officer who has division responsibilities, goals for certain performance criteria are based partly on the division’s actual performance relative to that division’s established goals and partly on actual total performance. Incentive payments are accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

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

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

	December 31,	
	2009	2008
Outstanding stock options and warrants	1,482,773	1,504,250
Possible future issuance under equity incentive plans	3,000,000	773,532
	4,482,773	2,277,782

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

At December 31, 2009, we had 128.7 million remaining shares of Common Stock authorized to be issued under our charter.

Our officers generally receive annual grants of stock options and restricted stock on or about March 1 of each year. Grants made prior to May 13, 2009 were made under the Amended and Restated 1994 Stock Option Plan. Grants subsequent to that date will be made under the 2009 Long-Term Equity Incentive Plan. Restricted stock grants are also made annually to directors and certain non-officer employees. At December 31, 2009, there was remaining availability of 3.0 million shares of Common Stock reserved for future issuance under the 2009 Long Term Equity Incentive Plan, of which no more than 1.0 million can be in the form of restricted stock.

Additional total return-based restricted stock and performance-based restricted stock may be issued at the end of the three-year periods if actual performance exceeds certain levels of performance. Such additional shares, if any, would be fully vested when issued. We will also accrue and record expense for additional performance-based shares during the three-year period to the extent issuance of the additional shares is expected based on our current and projected actual performance. No expense is recorded for additional shares of total return-based restricted stock that may be issued at the end of the three-year period since that possibility is already reflected in the grant date fair value.

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

During the years ended December 31, 2009, 2008 and 2007, we recognized $6.6 million, $6.7 million and $5.2 million, respectively, of share-based compensation expense. Because we generally do not pay income taxes we do not realize tax benefits on share-based payments. At December 31, 2009, there was $7.9 million of total unrecognized share-based compensation costs, which will be recognized over vesting periods that have a weighted average remaining term of 1.5 years.

- Stock Options

Stock options issued prior to 2005 vest ratably over four years and remain outstanding for 10 years. Stock options issued beginning in 2005 vest ratably over a four-year period and remain outstanding for seven years. The value of all options as of the date of grant is calculated using the Black-Scholes option-pricing model and is amortized over the respective vesting or service period. The fair values of options granted during 2009, 2008 and 2007 were $1.82, $3.18 and $6.30, respectively, per option. The fair values of the options granted were determined at the grant dates using the following assumptions:

	2009	2008	2007
	2.31%	2.67%	4.51%

Risk free interest rate (1)			
Common stock dividend yield (2)	8.96%	5.77%	4.07%
Expected volatility (3)	29.9%	22.64%	18.95%
Average expected option life (years) (4)	5.75	5.75	5.75
Options granted	394,044	319,091	146,347

(1) Represents the interest rate on US treasury bonds as of the grant date having the same life as the estimated life of the option grants.

(2) The dividend yield is calculated utilizing the dividends paid for the previous one-year period and the per share price of Common Stock on the date of grant.

(3) Based on the historical volatility of Common Stock over a period relevant to the related stock option grant.

(4) The average expected option life for the 2009, 2008 and 2007 grants is based on an analysis of our historical data.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

The following table sets forth stock option grants:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 2006	2,975,071	$ 24.67
Options granted	146,347	41.83
Options cancelled	(115,228)	30.14
Options exercised	(1,096,369)	23.28
Balances at December 31, 2007	1,909,821	26.45
Options granted	319,091	29.48
Options cancelled	(16,331)	31.66
Options exercised	(723,331)	22.95
Balances at December 31, 2008	1,489,250	28.74
Options granted	394,044	19.00
Options cancelled	(111,590)	27.65
Options exercised	(303,931)	24.18
Balances at December 31, 2009 (1) (2)	1,467,773	$ 27.15

(1) The outstanding options at December 31, 2009 had a weighted average remaining life of 4.4 years and intrinsic value of $10.3 million.

(2) We have 727,243 options exercisable at December 31, 2009 with weighted average exercise price of $29.12, weighted average remaining life of 4.3 years and intrinsic value of $3.7 million. At December 31, 2009, 70,577 options exercisable at December 31, 2009 had exercise prices higher than the market price of our Common Stock.

Cash received or receivable from options exercised was $7.4 million, $15.9 million and $12.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $2.0 million, $9.6 million and $23.4 million, respectively. The total intrinsic value of options outstanding at December 31, 2009, 2008 and 2007 was $10.3 million, $1.7 million and $8.0

million, respectively. We generally do not permit the net cash settlement of exercised stock options, but do permit net share settlement so long as the shares received are held for at least one year. We have a policy of issuing new shares to satisfy stock option exercises.

- Time-Based Restricted Stock

Shares of time-based restricted stock issued to our directors, officers and other employees prior to 2005 generally vest 50% three years from the date of grant and the remaining 50% five years from date of grant. Shares of time-based restricted stock that were issued to officers and employees in 2005 vest one-third on the third anniversary, one-third on the fourth anniversary and one-third on the fifth anniversary of the date of grant. Shares of time-based restricted stock that were issued to officers and employees beginning in 2006 generally vest 25% on the first, second, third and fourth anniversary dates, respectively. Shares of time-based restricted stock issued to directors generally vest 25% on January 1 of each successive year after the grant date. The value of grants of time-based restricted stock is based on the market value of Common Stock as of the date of grant and is amortized to expense over the respective vesting or service periods.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

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

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2006	255,120	$ 27.12
Awarded and issued (1)	205,283	40.78
Vested (2)	(73,947)	27.35
Forfeited	(29,959)	27.63
Restricted shares outstanding at December 31, 2007	356,497	34.89
Awarded and issued (1)	92,150	30.13
Vested (2)	(113,823)	33.13
Forfeited	(5,029)	32.11
Restricted shares outstanding at December 31, 2008	329,795	34.21
Awarded and issued (1)	128,384	19.33
Vested (2)	(132,779)	33.38
Forfeited	(9,326)	31.26
Restricted shares outstanding at December 31, 2009	316,074	$ 28.60

(1) The fair value at grant date of time-based restricted stock issued during the years ended December 31, 2009, 2008 and 2007 was $2.5 million, $2.8 million and $8.4 million, respectively.

(2) The vesting date fair value of time-based restricted stock that vested during the years ended December 31, 2009, 2008 and 2007 was $2.9 million, $4.8 million and $3.2 million, respectively.

- Total Return-Based and Performance-Based Restricted Stock

During 2007, we also issued shares of restricted stock to officers that vest from zero to 200% based on our total shareholder return in comparison to total returns of a selected group of peer companies over a three-year period. The grants also contained a provision allowing for partial vesting if our annual total return in any given year of the

three-year period exceeded 9% on an absolute basis.

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

During 2008 and 2007, we also issued shares of performance-based restricted stock to officers that will vest pursuant to certain performance-based criteria. The performance-based criteria are based on whether or not we meet or exceed at the end of three-year performance periods certain operating and financial goals established under our Strategic Plan. To the extent actual performance equals or exceeds threshold performance goals, the portion of shares of performance-based restricted stock that vest can range from 50% to 100%. If actual performance does not meet such threshold goals, none of the performance-based restricted stock will vest. The fair value of performance-based restricted share grants is based on the market value of Common Stock as of the date of grant and the estimated performance to be achieved at the end of the three-year period. Such fair value is being amortized to expense during the period from grant date to the vesting dates, adjusting for the expected level of vesting that will occur at those dates.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

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

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2006	106,646	$ 28.58
Awarded and issued (1)	41,480	41.81
Vested (2)	(3,778)	26.82
Forfeited	(8,876)	30.92
Restricted shares outstanding at December 31, 2007	135,472	32.52
Awarded and issued (1)	77,878	29.75
Vested (2)	(59,892)	26.82
Forfeited	(2,116)	29.23
Restricted shares outstanding at December 31, 2008	151,342	33.39
Awarded and issued (1)	127,594	15.01
Vested (2)	(68,929)	32.66
Forfeited	(7,232)	34.14
Restricted shares outstanding at December 31, 2009	202,775	$ 22.05

(1) The fair value at grant date of performance-based and total return-based restricted stock issued during the years ended December 31, 2009, 2008 and 2007 was $1.9 million, $2.3 million and $1.7 million, respectively.

(2) The vesting date fair value of performance-based and total return-based restricted stock that vested during the years ended December 31, 2009, 2008 and 2007 was $2.6 million, $2.4 million and $0.2 million, respectively.

Retirement Plan

In 2006, we adopted a retirement plan applicable to all employees, including officers, who, at the time of retirement, have at least 30 years of continuous qualified service or are at least 55 years old and have at least 10 years of continuous qualified service. Subject to advance retirement notice and execution of a non-compete agreement with us,

eligible retirees are entitled to receive a pro rata amount of the annual incentive payment earned during the year of retirement. Stock options and restricted stock granted by us to such eligible retiree during his or her employment would be non-forfeitable and vest according to the terms of their original grants. The benefits of this retirement plan apply only to restricted stock and stock option grants beginning in 2006 and have been phased in 25% on March 1, 2006 and 25% on each anniversary thereof. For employees who meet the age and service eligibility requirements, 50% of their 2007 grants, 75% of their 2008 grants and 100% of their 2009 grants were deemed fully vested at the grant date, which increased compensation expense by approximately $0.6 million, $0.6 million and $0.3 million in the years ended December 31, 2009, 2008 and 2007, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

Deferred Compensation

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

The following table sets forth our deferred compensation liability:

	Years Ended December 31,		
	2009	2008	2007
Beginning deferred compensation liability	$ 6,522	$ 7,867	$ 8,682
Contributions to deferred compensation plans	—	1,574	711
Mark-to-market adjustment to deferred compensation (general and administrative expense)	1,497	(2,177)	(128)
Distributions from deferred compensation plans	(1,121)	(742)	(1,398)
Total deferred compensation liability	$ 6,898	$ 6,522	$ 7,867

401(k) Savings Plan

We have a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. We contribute amounts for each participant at a rate of 75% of the employee’s contribution (up to 6% of each employee’s bi-weekly salary and cash incentives subject to statutory limits). During the years ended December 31, 2009, 2008 and 2007, we contributed $1.0 million, $1.1 million and $1.2 million, respectively, to the 401(k) savings plan. The assets of this qualified plan are not included in our Consolidated Balance Sheets since the assets are not owned by us. Administrative expenses of the plan are paid by us.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan pursuant to which employees generally may contribute up to 25.0% of their base and annual non-equity incentive compensation for the purchase of Common Stock. At the end of each three-month offering period, the contributions in each participant's account balance, which includes accrued dividends, is applied to acquire shares of Common Stock at a cost that is calculated at 85.0% of the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. In the years ended December 31, 2009, 2008 and 2007, the Company issued 37,287, 29,324 and 16,937 shares, respectively, of Common Stock under the Employee Stock Purchase Plan. The discount on newly issued shares is expensed by us as additional compensation and aggregated $0.3 million, $0.2 million and $0.2 million in the years ended December 31, 2009, 2008 and 2007, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

13. Comprehensive Income and Accumulated Other Comprehensive Loss

Comprehensive income represents net income plus the changes in certain amounts deferred in accumulated other comprehensive loss related to hedging activities and changes in fair market value of an available for-sale security not reflected in our Consolidated Statements of Income. The components of comprehensive income are as follows:

	Years Ended December 31,		
	2009	2008	2007
Net income	$ 61,694	$ 35,610	$ 97,095
Other comprehensive income:			
Unrealized gain/(loss) on tax increment financing bond	293	(2,659)	—
Unrealized gains/(losses) on cash flow hedges	937	(1,376)	—
Amortization of past cash flow hedges	(249)	181	577
Total other comprehensive income/(loss)	981	(3,854)	577
Total comprehensive income	$ 62,675	$ 31,756	$ 97,672

Accumulated other comprehensive loss represents certain amounts deferred related to hedging activities and an available for-sale security. The components of accumulated other comprehensive loss are as follows:

	December 31,	
	2009	2008
Tax increment financing bond	$ 2,366	$ 2,659
Cash flow hedges	1,445	2,133
	$ 3,811	$ 4,792

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

14. Rental and Other Revenues; Rental Property And Other Expenses

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

	Years Ended December 31,		
	2009	2008	2007
Contractual rents, net	$ 397,903	$ 387,257	$ 359,297
Straight-line rental income, net	3,545	6,147	7,135
Amortization of lease incentives	(1,100)	(1,020)	(939)
Property operating expense recoveries, net	45,009	46,546	41,264
Lease termination fees	1,813	2,561	1,700
Fee income	5,155	5,149	6,494
Other miscellaneous operating income	1,701	3,651	3,458
	$ 454,026	$ 450,291	$ 418,409

The following table sets forth future minimum base rents to be received from customers over the next five years and thereafter for leases in effect at December 31, 2009 for the Wholly Owned Properties:

2010	$ 390,391
2011	349,927
2012	286,339
2013	228,896
2014	194,190
Thereafter	598,329
	$ 2,048,072

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

Years Ended December 31,

	2009	2008	2007
Maintenance, cleaning and general building	$ 56,870	$ 58,508	$ 53,051
Utilities, insurance and real estate taxes	92,460	87,501	80,694
Property management and administrative expenses	11,930	11,605	11,242
Other miscellaneous operating expenses	2,995	4,238	4,530
	$ 164,255	$ 161,852	$ 149,517

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

15. Discontinued Operations

As part of our business strategy, we from time to time selectively dispose of non-core properties. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 2.5 million square feet of office, industrial and retail properties and 13 rental residential units sold during 2009, 2008 and 2007. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions.

	Years Ended December 31,		
	2009	2008	2007
Rental and other revenues	$ 5,284	$ 15,570	$ 25,734
Operating expenses:			
Rental property and other expenses	2,031	6,015	11,163
Depreciation and amortization	835	2,947	5,523
Total operating expenses	2,866	8,962	16,686
Interest expense	—	—	17
Interest and other income	—	31	59
Income before gains on disposition of discontinued operations	2,418	6,639	9,090
Net gains on disposition of discontinued operations	21,466	18,485	34,477
Net income from discontinued operations before release of uncertain tax liability	23,884	25,124	43,567
Release of uncertain tax liability	—	—	1,473
Total discontinued operations	$ 23,884	$ 25,124	$ 45,040
Carrying value of assets held for sale and assets sold that qualified for discontinued operations during the year	$ 54,686	$ 92,592	$ 164,108

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

	December 31,	
	2009	2008
Assets:		
Land	$ 867	$ 867
Buildings and tenant improvements	3,876	3,876
Land held for development	1,197	1,197

Accumulated depreciation		(1,484)		(1,387)
Net real estate assets		4,456		4,553
Deferred leasing costs, net		209		225
Accrued straight line rents receivable		289		273
Prepaid expenses and other assets		77		45
Real estate and other assets, net, held for sale	$	5,031	$	5,096
Tenant security deposits, deferred rents and accrued costs (1)	$	12	$	9

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

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

16. Earnings Per Share

Beginning in the first quarter of 2009, we have modified our calculation of weighted average shares, basic and diluted, to include the total number of restricted shares outstanding, as described in Note 1. The following table sets forth the computation of basic and diluted earnings per share:

	Years Ended December 31,		
	2009	2008	2007
Earnings per common share - basic:			
Numerator:			
Income from continuing operations	$ 37,810	$ 10,486	$ 52,055
Net (income)/loss attributable to noncontrolling interests in the Operating Partnership from continuing operations	(1,809)	8	(2,563)
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(11)	(2,041)	(679)
Dividends on preferred stock (1)	(6,708)	(9,804)	(13,477)
Excess of preferred stock redemption/repurchase cost over carrying value (1)	—	(108)	(2,285)
Income/(loss) from continuing operations available for common stockholders	29,282	(1,459)	33,051
Income from discontinued operations	23,884	25,124	45,040
Net (income) attributable to noncontrolling interests in the Operating Partnership from discontinued operations	(1,388)	(1,585)	(3,108)
Income from discontinued operations available for common stockholders	22,496	23,539	41,932
Net income available for common stockholders	$ 51,778	$ 22,080	$ 74,983
Denominator:			
Denominator for basic earnings per Common Share – weighted average shares (2)	67,971	59,320	56,929
Earnings per common share - basic:			
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58
Income from discontinued operations available for common stockholders	0.33	0.40	0.74
Net income available for common stockholders	$ 0.76	$ 0.37	$ 1.32
Earnings per common share - diluted:			
Numerator:			
Income from continuing operations	$ 37,810	$ 10,486	$ 52,055
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(11)	(2,033)	(679)

Dividends on preferred stock (1)	(6,708)	(9,804)	(13,477)
Excess of preferred stock redemption/repurchase cost over carrying value (1)	—	(108)	(2,285)
Income/(loss) from continuing operations available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	31,091	(1,459)	35,614
Income from discontinued operations available for common stockholders (3)	23,884	23,539	45,040
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	$ 54,975	$ 22,080	$ 80,654
Denominator:			
Denominator for basic earnings per Common Share –weighted average shares (2)	67,971	59,320	56,929
Add:			
Stock options using the treasury method	79	—	663
Noncontrolling interests partnership units	4,029	—	4,190
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (2)	72,079	59,320	61,782
Earnings per common share - diluted:			
Income/(loss) from continuing operations available for common stockholders	$ 0.43	$ (0.03)	$ 0.58
Income from discontinued operations available for common stockholders	0.33	0.40	0.73
Net income available for common stockholders	$ 0.76	$ 0.37	$ 1.31

(1) For additional disclosures regarding outstanding Preferred Stock, see Note 11 included herein.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

16. Earnings Per Share - Continued

(2) Options and warrants aggregating approximately 1.0 million, 1.4 million and 0.1 million shares were outstanding during the years ended December 31, 2009, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the impact of including such shares would be anti-dilutive to the earnings per share calculation.

(3) Balance at December 31, 2008 includes $1.6 million of loss attributable to noncontrolling interests in the Operating Partnership because we had a loss from continuing operations available for common stockholders.

17. Income Taxes

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

The minimum dividend per share of Common Stock required for us to maintain our REIT status was $0.89, $0.76 and $0.54 per share in 2009, 2008 and 2007, respectively. Continued qualification as a REIT depends on our ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests prescribed in the Code. The tax basis of our assets (net of accumulated tax depreciation and amortization) and liabilities was approximately $2.4 billion and $1.6 billion, respectively, at December 31, 2009 and was approximately $2.4 billion and $1.7 billion, respectively, at December 31, 2008.

Other than the liability for an uncertain tax position and related accrued interest discussed below, no provision has been made for federal income taxes during the years ended December 31, 2009, 2008 and 2007 because the Company qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no federal income tax expense during the periods. We recorded state income tax expense in rental property and other expenses of $0.6 million, $0.2 million and $0.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. The taxable REIT subsidiary has operated at a cumulative taxable loss through December 31, 2009 of approximately $10.8 million. In addition to the $4.2 million deferred tax asset for these cumulative tax loss carryforwards, the taxable REIT subsidiary also had net deferred tax liabilities of approximately $2.9 million comprised primarily of tax versus book basis differences in certain investments and depreciable assets held by the taxable REIT subsidiary. Because the future tax benefit of the cumulative losses is not assured, the approximate $1.3 million net deferred tax asset position of the taxable REIT subsidiary has been fully reserved as management does not believe that it is more likely than not that the net deferred tax asset will be realized. The tax benefit of the cumulative losses could be recognized for financial reporting purposes in future periods to the extent the taxable REIT subsidiary generates sufficient taxable income.

On January 1, 2007, we recorded a $1.4 million liability, which included $0.2 million of accrued interest, for an uncertain tax position, with the related expense reflected as a reduction to the beginning balance of distributions in excess of net earnings. This liability was included in accounts payable, accrued expenses and other liabilities. During

the third quarter of 2007, the liability for the uncertain tax position was released, and income recognized, upon the expiration of the applicable statute of limitations.

We are subject to federal, state and local income tax examinations by tax authorities for 2006 through 2009.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information

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

The accounting policies of the segments are the same as those described in Note 1. All operations are within the United States and, at December 31, 2009, no single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues during 2009.

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

	Years Ended December 31,		
	2009	2008	2007
Rental and Other Revenues: (1)			
Office:			
Atlanta, GA	$ 48,707	$ 47,066	$ 43,545
Greenville, SC	14,011	13,982	13,542
Kansas City, MO	14,840	15,350	14,337
Memphis, TN	30,644	25,853	24,211
Nashville, TN	60,555	60,194	50,245
Orlando, FL	11,810	11,403	8,787
Piedmont Triad, NC	25,357	25,771	26,815
Raleigh, NC	73,080	70,264	63,870
Richmond, VA	46,620	47,974	45,124
Tampa, FL	67,298	65,857	61,516
Total Office Segment	392,922	383,714	351,992
Industrial:			
Atlanta, GA	15,612	15,722	15,950
Piedmont Triad, NC	14,102	14,762	13,689
Total Industrial Segment	29,714	30,484	29,639
Retail:			
Kansas City, MO	29,999	34,634	35,385

Piedmont Triad, NC	185	221	219
Raleigh, NC	120	36	—
Total Retail Segment	30,304	34,891	35,604
Residential:			
Kansas City, MO	1,086	1,202	1,174
Total Residential Segment	1,086	1,202	1,174
Total Rental and Other Revenues	$ 454,026	$ 450,291	$ 418,409

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information - Continued

	Years Ended December 31,		
	2009	2008	2007
Net Operating Income: (1)			
Office:			
Atlanta, GA	$ 30,746	$ 28,821	$ 28,396
Greenville, SC	8,703	8,808	8,362
Kansas City, MO	9,068	9,245	8,379
Memphis, TN	17,693	15,141	13,630
Nashville, TN	39,058	39,639	32,148
Orlando, FL	6,265	6,303	4,445
Piedmont Triad, NC	16,456	16,064	17,094
Raleigh, NC	49,189	46,150	41,236
Richmond, VA	32,014	32,214	30,837
Tampa, FL	40,073	39,335	36,631
Total Office Segment	249,265	241,720	221,158
Industrial:			
Atlanta, GA	11,603	11,914	12,462
Piedmont Triad, NC	10,679	11,465	10,679
Total Industrial Segment	22,282	23,379	23,141
Retail:			
Atlanta, GA (2)	(21)	(26)	(34)
Kansas City, MO	18,170	22,568	23,950
Piedmont Triad, NC	12	177	191
Raleigh, NC (2)	9	(60)	(88)
Total Retail Segment	18,170	22,659	24,019
Residential:			
Kansas City, MO	581	715	659
Raleigh, NC (2)	(527)	(34)	(85)
Total Residential Segment	54	681	574
Total Net Operating Income	289,771	288,439	268,892
Reconciliation to income from continuing operations before disposition of property and condominiums, insurance settlement and equity in earnings of unconsolidated affiliates:			
Depreciation and amortization	(131,048)	(124,673)	(118,341)
Impairment of assets held for use	(13,518)	(32,846)	(789)

General and administrative expense		(36,682)		(38,043)		(41,570)
Interest expense		(86,872)		(98,492)		(100,320)
Interest and other income		9,550		3,825		6,383
Income/(loss) from continuing operations before disposition of property and condominiums, insurance settlement and equity in earnings of unconsolidated affiliates	$	31,201	$	(1,790)	$	14,255

(1) Net of discontinued operations.

(2) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for the respective product type.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information - Continued

	December 31,		
	2009	2008	2007
Total Assets:			
Office:			
Atlanta, GA	$ 275,464	$ 277,472	$ 276,283
Baltimore, MD	1,787	1,793	10,155
Greenville, SC	78,567	83,554	87,663
Kansas City, MO	85,681	87,954	104,076
Memphis, TN	220,722	187,316	134,962
Nashville, TN	338,124	348,068	349,351
Orlando, FL	48,821	50,852	51,361
Piedmont Triad, NC	141,971	148,511	182,470
Raleigh, NC	464,729	469,448	442,434
Richmond, VA	249,881	257,221	259,707
Tampa, FL	393,812	379,146	389,407
Total Office Segment	2,299,559	2,291,335	2,287,869
Industrial:			
Atlanta, GA	136,570	137,510	124,759
Kansas City, MO	—	123	152
Piedmont Triad, NC	92,300	100,429	108,234
Total Industrial Segment	228,870	238,062	233,145
Retail:			
Atlanta, GA	1,044	1,070	978
Kansas City, MO	175,757	224,603	230,556
Piedmont Triad, NC	1,082	10,423	7,960
Raleigh, NC	6,048	4,452	3,225
Total Retail Segment	183,931	240,548	242,719
Residential:			
Kansas City, MO	6,129	6,471	6,834
Orlando, FL	2,147	2,147	2,147
Raleigh, NC	16,291	28,698	18,032
Total Residential Segment	24,567	37,316	27,013
Corporate	150,174	138,909	136,209
Total Assets	$ 2,887,101	$ 2,946,170	$ 2,926,955

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited)

The following tables set forth quarterly financial information for the years ended December 31, 2009 and 2008 and have been adjusted to reflect discontinued operations:

	Year Ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (3)	$ 113,359	$ 112,854	$ 114,144	$ 113,669	$ 454,026
Income/(loss) from continuing operations (1) (3)	12,088	15,136	12,711	(2,125)	37,810
Income/(loss) from discontinued operations (3)	1,112	21,938	(138)	972	23,884
Net income/(loss)	13,200	37,074	12,573	(1,153)	61,694
Net (income)/loss attributable to noncontrolling interests in the Operating Partnership	(694)	(2,054)	(591)	142	(3,197)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(18)	(116)	(24)	147	(11)
Dividends on preferred stock	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income/(loss) available for common stockholders	$ 10,811	$ 33,227	$ 10,281	$ (2,541)	$ 51,778
Earnings per share-basic:					
Income/(loss) from continuing operations available for common stockholders	$ 0.15	$ 0.19	$ 0.15	$ (0.05)	$ 0.43
Income from discontinued operations available for common stockholders	0.02	0.31	—	0.01	0.33
Net income/(loss) available for common stockholders	$ 0.17	$ 0.50	$ 0.15	$ (0.04)	$ 0.76
Earnings per share-diluted:					
Income/(loss) from continuing operations available for common stockholders	$ 0.15	$ 0.19	$ 0.14	$ (0.05)	$ 0.43
Income from discontinued operations available for common stockholders	0.02	0.31	—	0.01	0.33
	$ 0.17	$ 0.50	$ 0.14	$ (0.04)	$ 0.76

Net income/(loss) available for common stockholders

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited)

	Year Ended December 31, 2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (3)	$ 110,833	$ 112,373	$ 112,706	$ 114,379	$ 450,291
Income/(loss) from continuing operations (2) (3)	11,226	9,061	11,027	(20,828)	10,486
Income from discontinued operations (3)	5,508	6,952	4,697	7,967	25,124
Net income/(loss)	16,734	16,013	15,724	(12,861)	35,610
Net (income)/loss attributable to noncontrolling interests in the Operating Partnership	(893)	(839)	(812)	967	(1,577)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(198)	(191)	(201)	(1,451)	(2,041)
Dividends on preferred stock	(2,838)	(2,838)	(2,451)	(1,677)	(9,804)
Excess of preferred stock redemption/ repurchase cost over carrying value	—	—	(108)	—	(108)
Net income/(loss) available for common stockholders	$ 12,805	$ 12,145	$ 12,152	$ (15,022)	$ 22,080
Earnings per share-basic:					
Income/(loss) from continuing operations available for common stockholders	$ 0.13	$ 0.10	$ 0.13	$ (0.36)	$ (0.03)
Income from discontinued operations available for common stockholders	0.09	0.11	0.08	0.12	0.40
Net income/(loss) available for common stockholders	$ 0.22	$ 0.21	$ 0.21	$ (0.24)	$ 0.37
Earnings per share-diluted:					
Income/(loss) from continuing operations available for common stockholders	$ 0.13	$ 0.10	$ 0.13	$ (0.36)	$ (0.03)
Income from discontinued operations available for common stockholders	0.09	0.11	0.08	0.12	0.40

Net income/(loss) available for common stockholders	$ 0.22	$ 0.21	$ 0.21	$ (0.24)	$ 0.37

(1) Loss from continuing operations for the fourth quarter of 2009 includes a $13.5 million impairment on assets held for use as described in Note 2.

(2) Loss from continuing operations for the fourth quarter of 2008 includes a $32.8 million impairment on assets held for use as described in Note 2.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited) – Continued

(3) The amounts presented for the first three quarters are not equal to the same amounts previously reported in Form 10-Q for each period as a result of discontinued operations (see Note 15). Below is the reconciliation to the amounts previously reported in Form 10-Q:

	Quarter Ended		
	March 31, 2009	June 30, 2009	September 30, 2009
Rental and other revenues, as reported	$ 115,966	$ 113,310	$ 114,229
Discontinued operations	(2,607)	(456)	(85)
Rental and other revenues, as adjusted	$ 113,359	$ 112,854	$ 114,144
Income from continuing operations, as reported	$ 13,127	$ 15,350	$ 12,718
Discontinued operations	(1,039)	(214)	(7)
Income from continuing operations, as adjusted	$ 12,088	$ 15,136	$ 12,711
Income/(loss) from discontinued operations, as reported	$ 73	$ 21,724	$ (145)
Additional discontinued operations from properties sold subsequent to the respective reporting period	1,039	214	7
Income/(loss) from discontinued operations, as adjusted	$ 1,112	$ 21,938	$ (138)

	Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Rental and other revenues, as reported	$ 113,428	$ 112,828	$ 112,755	$ 117,103
Discontinued operations	(2,595)	(455)	(49)	(2,724)
Rental and other revenues, as adjusted	$ 110,833	$ 112,373	$ 112,706	$ 114,379
Income/(loss) from continuing operations, as reported (a)	$ 12,338	$ 9,241	$ 10,985	$ (19,737)
Discontinued operations	(1,112)	(180)	42	(1,091)
Income/(loss) from continuing operations, as adjusted	$ 11,226	$ 9,061	$ 11,027	$ (20,828)
Income from discontinued operations, as reported (a)	$ 4,396	$ 6,772	$ 4,739	$ 6,392
	1,112	180	(42)	1,575

Additional discontinued operations from properties sold subsequent to the respective reporting period				
Income from discontinued operations, as adjusted	$ 5,508	$ 6,952	$ 4,697	$ 7,967

(a) Income from continuing and discontinued operations, as reported, for the quarter ended December 31, 2008 were net of income attributable to noncontrolling interests of $0.1 million and $0.4 million, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

20. Other Events

Property Insurance Settlement

In 2005, one of our office properties located in southeastern Florida sustained damage in a hurricane. During the first quarter of 2007, we recorded a $4.1 million gain for the non-monetary conversion upon finalization of the insurance claim.

Subsequent Events

We have evaluated events subsequent to December 31, 2009 through February 11, 2010 (date of filing) for purposes of our measurement and disclosure in these Consolidated Financial Statements.

On February 3, 2010, the Board of Directors declared a cash dividend of $0.425 per share of Common Stock payable on March 9, 2010 to stockholders of record on February 15, 2010, a cash dividend of $21.5625 per share of 8.625% Series A Preferred Shares payable on March 1, 2010 to stockholders of record on February 15, 2010 and a cash dividend of $0.50 per share of 8.000% Series B Preferred Shares payable on March 15, 2010 to stockholders of record on March 1, 2010.

The buyer's right to put a building to us that was disposed of in the fourth quarter of 2009 expired in January 2010. This property was accounted for as a financing arrangement at December 31, 2009 (see Note 7). Accordingly, we recognized a completed sale of the property in the first quarter of 2010.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Highwoods Realty Limited Partnership and subsidiaries (the "Operating Partnership") as of December 31, 2009 and 2008, and the related consolidated statements of income, capital, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Operating Partnership's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Highwoods Realty Limited Partnership and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 11, 2010

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Balance Sheets

(in thousands, except unit and per unit data)

	December 31,	
	2009	2008
Assets:		
Real estate assets, at cost:		
Land	$ 350,537	$ 352,005
Buildings and tenant improvements	2,880,632	2,815,967
Development in process	—	61,938
Land held for development	104,148	98,946
	3,335,317	3,328,856
Less-accumulated depreciation	(781,073)	(712,837)
Net real estate assets	2,554,244	2,616,019
For-sale residential condominiums	12,933	24,284
Real estate and other assets, net, held for sale	5,031	5,096
Cash and cash equivalents	23,519	13,649
Restricted cash	6,841	2,258
Accounts receivable, net of allowance of $2,810 and $1,281, respectively	21,069	23,687
Notes receivable, net of allowance of $698 and $459, respectively	3,143	3,602
Accrued straight-line rents receivable, net of allowance of $2,443 and $2,082, respectively	82,600	79,706
Investment in unconsolidated affiliates	64,894	66,517
Deferred financing and leasing costs, net of accumulated amortization of $52,129 and $52,494, respectively	73,517	72,992
Prepaid expenses and other assets	37,947	37,046
Total Assets	$ 2,885,738	$ 2,944,856
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	$ 1,469,155	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	117,331	135,606
Financing obligations	37,706	34,174
Total Liabilities	1,624,192	1,774,465
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 3,891,121 and 4,067,163 outstanding, respectively	129,769	111,278
Series A Preferred Units (liquidation preference $1,000 per unit), 29,092 shares issued and outstanding	29,092	29,092
Series B Preferred Units (liquidation preference $25 per unit), 2,100,000 shares issued and outstanding	52,500	52,500
Total Redeemable Operating Partnership Units	211,361	192,870
Equity:		

Common Units:		
General partner Common Units, 747,676 and 672,301 outstanding, respectively	10,485	9,759
Limited partner Common Units, 70,128,818 and 62,490,596 outstanding, respectively	1,038,328	966,378
Accumulated other comprehensive loss	(3,811)	(4,792)
Noncontrolling interests in consolidated affiliates	5,183	6,176
Total Equity	1,050,185	977,521
Total Liabilities, Redeemable Operating Partnership Units and Equity	$ 2,885,738	$ 2,944,856

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Income

(in thousands, except per unit amounts)

	Years Ended December 31,		
	2009	2008	2007
Rental and other revenues	$ 454,026	$ 450,291	$ 418,409
Operating expenses:			
Rental property and other expenses	163,729	161,702	149,036
Depreciation and amortization	131,048	124,673	118,341
Impairment of assets held for use	13,518	32,846	789
General and administrative	37,208	38,187	41,930
Total operating expenses	345,503	357,408	310,096
Interest expense:			
Contractual	81,982	92,858	93,894
Amortization of deferred financing costs	2,760	2,716	2,415
Financing obligations	2,130	2,918	3,930
	86,872	98,492	100,239
Other income:			
Interest and other income	8,263	3,759	6,372
Gains on debt extinguishments	1,287	—	—
	9,550	3,759	6,372
Income/(loss) from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	31,201	(1,850)	14,446
Gains on disposition of property	266	781	20,418
Gains on for-sale residential condominiums	922	5,617	—
Gain from property insurance settlement	—	—	4,128
Equity in earnings of unconsolidated affiliates	5,367	5,811	12,322
Income from continuing operations	37,756	10,359	51,314
Discontinued operations:			
Income from discontinued operations	2,418	6,639	9,104
Net gains on disposition of discontinued operations	21,466	18,485	34,477
	23,884	25,124	43,581
Net income	61,640	35,483	94,895
Net (income) attributable to noncontrolling interests in consolidated affiliates	(11)	(2,041)	(679)
Distributions on preferred units	(6,708)	(9,804)	(13,477)
Excess of preferred unit redemption/repurchase cost over carrying value	—	(108)	(2,285)
Net income available for common unitholders	$ 54,921	$ 23,530	$ 78,454
Earnings per common unit – basic:			
Income/(loss) from continuing operations available for common unitholders	$ 0.43	$ (0.03)	$ 0.57

Income from discontinued operations available for common unitholders		0.34		0.40		0.72
Net income available for common unitholders	$	0.77	$	0.37	$	1.29
Weighted average common units outstanding – basic		71,591		62,882		60,710
Earnings per common unit – diluted:						
Income/(loss) from continuing operations available for common unitholders	$	0.43	$	(0.03)	$	0.57
Income from discontinued operations available for common unitholders		0.34		0.40		0.71
Net income available for common unitholders	$	0.77	$	0.37	$	1.28
Weighted average common units outstanding – diluted		71,670		62,882		61,373
Distributions declared and paid per common unit	$	1.70	$	1.70	$	1.70
Net income available for common unitholders:						
Income/(loss) from continuing operations available for common unitholders	$	31,037	$	(1,594)	$	34,873
Income from discontinued operations available for common unitholders		23,884		25,124		43,581
Net income available for common unitholders	$	54,921	$	23,530	$	78,454

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Capital

(in thousands, except unit amounts)

For the Years Ended December 31, 2009, 2008 and 2007

	Common Units		Accum Other Compre-hensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total Partners' Capital
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2006, as previously reported	$ 7,893	$ 781,455	$ (1,515)	$ —	$ 787,833
Cumulative change from adoption of new accounting principle (see Note 1)	—	—	—	2,877	2,877
Balance at December 31, 2006, as adjusted	7,893	781,455	(1,515)	2,877	790,710
Issuances of Common Units	71	6,996	—	—	7,067
Redemptions of Common Units	(275)	(27,193)	—	—	(27,468)
Distributions paid on Common Units	(1,030)	(101,993)	—	—	(103,023)
Distributions paid on Preferred Units	(134)	(13,343)	—	—	(13,477)
Share-based compensation expense	50	4,981	—	—	5,031
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	5,651	5,651
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(2,404)	(2,404)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	788	78,040	—	—	78,828
Net (income) attributable to noncontrolling interests in consolidated affiliates	(7)	(672)	—	679	—
Comprehensive income:					
Net income	949	93,946	—	—	94,895
Other comprehensive income	—	—	577	—	577
Total comprehensive income					95,472
Balance at December 31, 2007, as adjusted	8,305	822,217	(938)	6,803	836,387
Issuances of Common Units	2,163	214,145	—	—	216,308
Redemptions of Common Units	(33)	(3,260)	—	—	(3,293)
Distributions paid on Common Units	(1,063)	(105,199)	—	—	(106,262)
Distributions paid on Preferred Units	(98)	(9,706)	—	—	(9,804)
Share-based compensation expense	67	6,650	—	—	6,717
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	625	625
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(3,293)	(3,293)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	84	8,423	—	—	8,507

Net (income) attributable to noncontrolling interests in consolidated affiliates	(20)	(2,021)	—	2,041	—
Comprehensive income:					
Net income	354	35,129	—	—	35,483
Other comprehensive loss	—	—	(3,854)	—	(3,854)
Total comprehensive income					31,629
Balance at December 31, 2008, as adjusted	9,759	966,378	(4,792)	6,176	977,521
Issuances of Common Units	1,509	149,432	—	—	150,941
Distributions paid on Common Units	(1,206)	(119,360)	—	—	(120,566)
Distributions paid on Preferred Units	(67)	(6,641)	—	—	(6,708)
Share-based compensation expense	66	6,501	—		6,567
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(1,004)	(1,004)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(192)	(18,995)	—	—	(19,187)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	(11)	—	11	—
Comprehensive income:					
Net income	616	61,024	—	—	61,640
Other comprehensive income	—	—	981	—	981
Total comprehensive income					62,621
Balance at December 31, 2009	$ 10,485	$ 1,038,328	$ (3,811)	$ 5,183	$ 1,050,185

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2009	2008	2007
Operating activities:			
Net income	$ 61,640	$ 35,483	$ 94,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	116,819	112,299	109,538
Amortization of lease commissions	15,064	15,321	14,318
Amortization of lease incentives	1,110	1,041	962
Share-based compensation expense	6,567	6,717	5,031
Amortization of deferred financing costs	2,760	2,716	2,415
Amortization of accumulated other comprehensive loss/(income)	(249)	181	577
Impairment of assets held for use	13,518	32,846	789
Gains on debt extinguishment	(1,287)	—	—
Gains on disposition of property	(21,732)	(19,266)	(54,895)
Gains on disposition of for-sale residential condominiums	(922)	(5,617)	—
Gain from property insurance settlement	—	—	(4,128)
Equity in earnings of unconsolidated affiliates	(5,367)	(5,811)	(12,322)
Changes in financing obligations	392	80	454
Distributions of earnings from unconsolidated affiliates	4,103	5,978	4,271
Changes in operating assets and liabilities:			
Accounts receivable	336	(1,876)	481
Prepaid expenses and other assets	(2,629)	(352)	(2,148)
Accrued straight-line rents receivable	(4,037)	(5,963)	(7,418)
Accounts payable, accrued expenses and other liabilities	2,962	(15,995)	8,706
Net cash provided by operating activities	189,048	157,782	161,526
Investing activities:			
Additions to real estate assets and deferred leasing costs	(151,482)	(231,422)	(287,491)
Net proceeds from disposition of real estate assets	77,288	64,858	143,586
Net proceeds from property insurance settlement	—	—	4,940
Net proceeds from disposition of for-sale residential condominiums	12,196	27,140	—
Distributions of capital from unconsolidated affiliates	3,955	3,214	19,164
Net repayments of notes receivable	459	1,624	2,918
	(952)	(12,741)	(4,716)

Contributions to unconsolidated affiliates			
Changes in restricted cash and other investing activities	(3,288)	12,984	(30,259)
Net cash used in investing activities	(61,824)	(134,343)	(151,858)
Financing activities:			
Distributions on Common Units	(120,566)	(106,262)	(103,023)
Redemptions/repurchases of Preferred Stock	—	(52,499)	(62,256)
Dividends on Preferred Units	(6,708)	(9,804)	(13,477)
Distributions to noncontrolling interests in consolidated affiliates	(1,004)	(3,293)	(2,404)
Net proceeds from the issuance of Common Units	150,941	209,984	7,067
Redemptions of Common Units	—	(3,293)	(27,468)
Borrowings on revolving credit facility	128,000	462,183	393,800
Repayments on revolving credit facility	(291,000)	(526,983)	(527,500)
Borrowings on mortgages and notes payable	217,215	192,300	429,786
Repayments of mortgages and notes payable	(188,501)	(173,259)	(118,462)
Borrowings on financing obligations	4,184	—	—
Payments on financing obligations	(1,044)	(977)	(913)
Contributions from noncontrolling interests in consolidated affiliates	—	625	5,651
Additions to deferred financing costs and other financing activities	(8,871)	(1,656)	(3,163)
Net cash used in financing activities	(117,354)	(12,934)	(22,362)
Net increase/(decrease) in cash and cash equivalents	9,870	10,505	(12,694)
Cash and cash equivalents at beginning of the period	13,649	3,144	15,838
Cash and cash equivalents at end of the period	$ 23,519	$ 13,649	$ 3,144

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows - Continued

(in thousands)

Supplemental disclosure of cash flow information:

	Years Ended December 31,		
	2009	2008	2007
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financing arrangements of $486, $1,579 and $2,148 for 2009, 2008 and 2007, respectively)	$ 85,422	$ 97,518	$ 88,867

Supplemental disclosure of non-cash investing and financing activities:

	Years Ended December 31,		
	2009	2008	2007
Unrealized gains/(losses) on cash flow hedges	$ 937	$ (1,376)	$ —
Conversion of Common Units to Common Stock	$ 5,591	$ 2,022	$ 2,166
Changes in accrued capital expenditures	$ (19,098)	$ (7,833)	$ (11,864)
Write-off of fully depreciated real estate assets	$ 33,006	$ 34,633	$ 18,341
Write-off of fully amortized deferred financing and leasing costs	$ 19,194	$ 14,705	$ 9,708
Unrealized gains/(losses) on marketable securities held in our non-qualified deferred compensation plan	$ 1,497	$ (2,177)	$ (128)
Assumption of mortgages payable to acquire real estate assets	$ —	$ 8,348	$ —
Issuance of Common Units to acquire real estate assets	$ —	$ 6,325	$ —
Unrealized gains/(losses) on tax increment financing bond	$ 293	$ (2,659)	$ —

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business and Significant Accounting Policies

Description of Business

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

At December 31, 2009, the Company owned all of the Preferred Units and 70.9 million, or 94.8%, of the Common Units in the Operating Partnership. Limited partners, including one officer and two directors of the Company, own the remaining 3.9 million Common Units. In the event the Company issues shares of Common Stock, the proceeds of the issuance are contributed to the Operating Partnership in exchange for additional Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company's Common Stock, $.01 par value, based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During 2009, the Company redeemed 176,042 Common Units for a like number of shares of Common Stock. In June 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of $144.1 million. The net impact of this offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% at December 31, 2008 to 94.8% at December 31, 2009.

At December 31, 2009, the Company and/or the Operating Partnership wholly owned: 307 in-service office, industrial and retail properties, comprising 27.8 million square feet; 96 rental residential units; 581 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; and an additional three office and industrial properties that are in service but not yet stabilized and 40 for-sale condominiums (which are owned through a consolidated, majority-owned joint venture). In addition, we owned interests (50.0% or less) in 70 in-service office and industrial properties, one office property under development, 53 acres of undeveloped land suitable for future development and 418 rental residential units, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company and thus is included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements. Five of the 50.0% or less owned in-service office properties are consolidated as more fully described below and in Notes 3, 7 and 9 to our Consolidated Financial Statements.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). Our Consolidated Balance Sheet at December 31, 2008 was revised from previously reported amounts to reflect in real estate and other assets, net, held for sale those properties held for sale at December 31, 2009 and the retroactive accounting modifications described below. The Consolidated Statements of Income for the years ended December 31, 2008 and 2007 were also revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale during 2009 which qualified

for discontinued operations presentation and the retroactive accounting modifications described below.

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

Beginning in the first quarter of 2009, we were required to present noncontrolling interests, defined as the portion of equity in a subsidiary not attributable directly or indirectly to the parent, as a separate component of equity in the Consolidated Balance Sheets subject to existing requirements for the classification and measurement of redeemable securities. Additionally, we were required to modify the presentation of net income by attributing earnings and other comprehensive income to controlling and noncontrolling interests. These accounting changes were required to be retroactively applied for all periods presented. Below are the steps we have taken as a result of retroactively applying these changes to previously reported amounts:

- We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled $6.2 million, $6.8 million and $2.9 million at December 31, 2008, 2007 and 2006, respectively.

- We no longer deduct net income attributable to noncontrolling interests in consolidated affiliates when determining net income. As a result, net income for the years ended December 31, 2008 and 2007 increased $2.0 million and $0.7 million, respectively, from the previously reported amounts. The adoption of these requirements had no effect on our net income available for common stockholders or our earnings per common share.

Beginning in the first quarter of 2009, we also were required to include our total number of restricted Common Shares outstanding in the calculation of weighted average Common Shares outstanding, basic and diluted, for all periods presented. As a result, for the year ended December 31, 2008, weighted average Common Units outstanding, basic and diluted, are 516,725 and 253,725 shares higher than previously reported, respectively. For the year ended December 31, 2007, weighted average Common Units outstanding, basic and diluted, are 485,002 and 234,511 shares higher than previously reported, respectively. Basic earnings per common unit for each of the years ended December 31, 2008 and 2007 was $0.01 lower than previously reported. Diluted earnings per common unit for the year ended December 31, 2008 was $0.01 lower than previously reported and diluted earnings per common unit for the year ended December 31, 2007 was unchanged from the previously reported amount.

The Consolidated Financial Statements include wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. We consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership or in our capacity as general partner or managing member. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At December 31, 2009, we had involvement with no entities that we deemed to be variable interest entities. All significant intercompany transactions and accounts have been eliminated.

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.

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

Real Estate and Related Assets

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

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

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

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

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

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

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

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

The value of a customer relationship is based on our overall relationship with the respective customer. Factors considered include the customer's credit quality and expectations of lease renewals. The value of a customer relationship is amortized to depreciation and amortization expense over the initial term and any renewal periods defined in the respective leases.

Real estate and other assets are classified as long-lived assets held for use and as long-lived assets held for sale. Real estate is classified as held for sale when we believe a sale is probable. We believe a sale is probable when we execute a legally enforceable contract on terms that have been approved by the Company's Board, or a committee thereof, and the probable buyer's due diligence investigation period, if any, has expired. This determination requires us to make estimates and assumptions, including assessing the probability that potential sales transactions may or may not occur. Actual results could differ from those assumptions.

Impairment of Long-Lived Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, if events or changes in circumstances, such as a significant decline in occupancy, change in our designation of an asset as a core or non-core holding or market value less than cost, indicate that the carrying value may be impaired, an impairment analysis is performed. Such analysis consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, costs to operate each property, and expected ownership periods. If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analysis. In some instances, appraisal information may be available and is used in addition to the discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on our properties held for use.

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

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

Sales of Real Estate

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

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

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

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

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

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Our total receivables balance related to our customers is comprised primarily of rents and operating cost recoveries as well as accrued straight-line rents receivable. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the expected recovery through bankruptcy claims and increase the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of accounts receivable and accrued straight-line rents receivable prove incorrect, we could experience write-offs of accounts receivable or accrued straight-line rents receivable in excess of our allowance for doubtful accounts.

Rental and Other Revenues

Rental revenue is recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Termination fees are recognized as revenue when the following four conditions are met: a fully executed lease termination agreement has been delivered; the customer has vacated the space; the amount of the fee is determinable; and collectability of the fee is reasonably assured.

Property operating cost recoveries from customers are determined on a calendar year and lease-by-lease basis. The most common types of cost reimbursements in our leases are CAM and real estate taxes, for which the customer pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of a base year. The computation of property operating cost recovery income from customers is complex and involves numerous judgments, including the interpretation of terms and other customer lease provisions. Leases are not uniform in

dealing with such cost reimbursements and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected with respect to the cost reimbursements. After the end of the calendar year, we compute each customer's final cost reimbursements and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

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

Discontinued Operations

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

Lease Incentives

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

Investments in Unconsolidated Affiliates

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

From time to time, we may contribute real estate assets to a joint venture in exchange for a combination of cash and an equity interest in the venture. In such instances, we assess whether we have continuing involvement in the joint venture and account for the transaction according to the nature and extent of such involvement. If the sales price is reasonably assured and we are not required to support the operations of the property or its related obligations to an extent greater than our proportionate interest, a gain is recognized to the extent of the third party investor’s interest and we account for our interest in the joint venture using the equity method. If these criteria have not been met, the

transaction is accounted for as a financing or profit-sharing arrangement, leasing arrangement or other alternate method of accounting other than as a completed sale.

Additionally, our joint ventures will frequently borrow funds on their own behalf to finance the acquisition of, and/or leverage the return upon, the properties being acquired by the joint ventures or to build or acquire additional buildings. Such borrowings are typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt (see Note 8). In most cases, we and/or our joint venture partners are required to agree to customary limited exceptions on non-recourse loans.

Cash Equivalents

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

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

Restricted Cash

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

Redeemable Common Units and Preferred Units

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

Income Taxes

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, the Company is required to pay dividends to its stockholders equal to at least 90.0% of its annual REIT taxable income, excluding capital gains. Under temporary IRS regulations, for 2010 and 2011, distributions can be paid partially using a REIT's freely-tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. The partnership agreement requires the Operating Partnership to pay economically equivalent distributions on outstanding Common Units at the same time that the Company pays dividends on its outstanding Common Stock.

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

Concentration of Credit Risk

We perform ongoing credit evaluations of our customers. At December 31, 2009, the wholly owned properties, defined as in-service properties (excluding rental residential units) to which we have title and 100.0% ownership rights ("Wholly Owned Properties"), were leased to 1,719 customers in nine primary geographic locations. The geographic locations that comprise greater than 10.0% of our annualized cash rental revenue are Raleigh, NC, Tampa, FL, Atlanta, GA, Nashville, TN and Kansas City, MO. Our customers engage in a wide variety of businesses. No single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues during 2009.

We maintain our cash and cash equivalents and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution may exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

Derivative Financial Instruments

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

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

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

Earnings Per Unit

Basic earnings per unit is computed by dividing net income available for common unitholders by the weighted Common Units outstanding - basic. Diluted earnings per unit is computed by dividing net income available to common unitholders by the weighted Common Units outstanding – basic plus the dilutive effect of options, warrants and using the treasury stock method.

Recently Issued Accounting Standards

Beginning in the first quarter of 2010, we will be required to perform an ongoing assessment to determine whether each entity in which we have an equity interest is a variable interest entity that should be consolidated if qualitative factors indicate we have the controlling interest. This accounting change is required to be retroactively applied for all periods presented. The adoption of this new requirement is not expected to have a material impact on our financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. Real Estate Assets

Acquisitions

In 2009, we acquired a 220,000 square foot office building in Tampa, FL for a total investment of $24.7 million, including approximately $2.4 million of building improvements and other costs related to this acquisition. In 2008, we acquired a 135,000 square foot office building in Memphis, TN in exchange for 183,587 Common Units and the assumption of $7.8 million of 8.15% secured debt, both of which were recorded at fair value of $6.3 million and $8.4 million, respectively. In 2007, we made no significant acquisitions.

Dispositions

In 2009, we sold 517,000 square feet of non-core retail and office properties for gross proceeds of $78.2 million and recorded gains of $21.7 million. A 30,000 square foot office property disposition for $4.2 million was accounted for as a financing arrangement as described in Note 7. In 2008, we sold 744,000 square feet of office and industrial properties for gross proceeds of approximately $56.8 million and recorded net gains of $17.9 million. We also sold 38 acres of non-core land for gross sale proceeds of $9.2 million and recorded a net gain of $0.3 million. In 2007, we sold 1,240,000 square feet of office and industrial properties for gross proceeds of $113.9 million and recorded gains of $34.7 million. We also sold 133 acres of non-core land for gross sale proceeds of $37.4 million and recorded gains of $16.6 million.

Impairments

We recorded impairment of assets held for use located in Winston-Salem and Greensboro, NC of $13.5 million in 2009 and $32.8 million in 2008. The 2009 impairment related to 12 office properties, 11 of which were previously impaired in 2008, six industrial properties and two retail properties. We recorded an impairment of $0.8 million in 2007 related to one land parcel. Impairments can arise from a number of factors which are subject to change; accordingly, we may be required to take additional impairment charges in the future.

Development

We currently have two office properties and one industrial property recently completed, but not yet stabilized, aggregating 501,000 square feet. We define “stabilized” as the earlier of the original projected stabilization date or the date such project is at least 95% occupied. The aggregate cost, including leasing commissions, of these properties currently is expected to be $69.2 million when fully leased, of which $64.2 million had been incurred at December 31, 2009. The dollar weighted average pre-leasing of these properties was approximately 43% at December 31, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet at December 31, 2009.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments

Unconsolidated Affiliates

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

Investments in unconsolidated affiliates consisted of the following at December 31, 2009:

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

Combined summarized financial information for our unconsolidated affiliates is as follows:

	December 31, 2009	December 31, 2008
Balance Sheets:		
Assets:		
Real estate assets, net	$ 669,657	$ 703,897
All other assets, net	116,097	112,965
Total Assets	$ 785,754	$ 816,862
Liabilities and Partners' or Shareholders' Equity:		
Mortgages and notes payable (1)	$ 582,460	$ 603,520
All other liabilities	32,447	32,826
Partners' or shareholders' equity	170,847	180,516
Total Liabilities and Partners' or Shareholders' Equity	$ 785,754	$ 816,862
Our share of historical partners' or shareholders' equity	$ 34,133	$ 36,766
Net excess of cost of investments over the net book value of underlying net assets (2)	18,352	18,071
Carrying value of investments in unconsolidated affiliates, net of negative investment balances included in other liabilities (3)	$ 52,485	$ 54,837
Our share of unconsolidated non-recourse mortgage debt (1)	$ 237,102	$ 245,108

(1) Our share of future principal payments, including amortization, due on mortgages and notes payable at December 31, 2009 is as follows:

2010	$ 10,209
2011	6,153
2012	40,100
2013	23,452
2014	61,434
Thereafter	95,754
	$ 237,102

All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) guarantees (see Note

8).

(2) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the joint venture level, which is typically depreciated over the life of the related asset. In addition, certain acquisition, transaction and other costs may not be reflected in net assets at the joint venture level.

(3) During the third quarter of 2006, three of our Des Moines joint ventures made cash distributions aggregating $17.0 million in connection with a debt refinancing. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. Although the new debt is non-recourse, we and our partner have guaranteed other debt and have contractual obligations to support the joint ventures, as discussed in Note 8. We recorded the distributions as a reduction of our investment account and included the resulting negative investment balances of $12.4 million and $11.7 million in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

	Years Ended December 31,		
	2009	2008	2007
Income Statements:			
Rental and other revenues	$ 145,143	$ 156,482	$ 134,908
Expenses:			
Rental property and other expenses	70,197	77,221	57,346
Depreciation and amortization	33,821	33,096	28,912
Interest expense	34,405	35,204	33,290
Total expenses	138,423	145,521	119,548
Income before disposition of properties	6,720	10,961	15,360
Gains on disposition of properties	2,963	—	20,621
Net income	$ 9,683	$ 10,961	$ 35,981
Our share of:			
Net income (1)	$ 5,367	$ 5,811	$ 12,322
Depreciation and amortization of real estate assets	$ 11,877	$ 12,582	$ 13,749
Interest expense	$ 13,969	$ 14,473	$ 14,294
Net gain on disposition of depreciable properties	$ 582	$ —	$ 7,158

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures' net income due to our purchase accounting and other adjustments related primarily to management and leasing fees.

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

- Kessinger/Hunter, LLC

Kessinger/Hunter, LLC, which is managed by our joint venture partner, previously provided property management, leasing, brokerage and certain construction related services to certain of our Wholly Owned Properties in Kansas City, MO. These services were reduced by us to only leasing-related services in 2009. Kessinger/Hunter, LLC received $0.5 million, $2.6 million and $3.8 million from us for these services in 2009, 2008 and 2007, respectively.

- Highwoods DLF 98/29, LLC ("DLF I")

At the formation of this joint venture, our partner contributed excess cash to the venture that was distributed to us under the joint venture agreements. We are required to repay this excess cash to our partner over time, as discussed in Note 8.

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

In 2007, DLF I sold five properties to a third party for gross proceeds of $34.2 million and recorded a gain of $9.3 million related to this sale. We recorded $2.1 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in 2007. Also, DLF I acquired Eola Park Centre, a 167,000 square foot office building in Orlando, FL, for $39.3 million and obtained a $27.7 million loan secured by the property.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

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

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

- Highwoods-DLF Forum, LLC ("DLF Forum")

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

- HIW-KC Orlando, LLC ("KC Orlando")

We made certain commitments to this joint venture as discussed in Note 8 at the time of the formation, which reduced our gain on the partial sale. In the event that unused commitments expire, we record additional gains on disposition of property as a component of income from continuing operations due to our significant continuing involvement with the joint venture.

- HIW Development B, LLC

In 2009, we contributed $0.3 million to this joint venture for a 10% ownership interest. Simultaneous with the formation, this joint venture acquired land for $3.4 million to be used for development. This joint venture is constructing a build-to-suit office property in Charlotte, NC for which we will receive customary development fees.

- Weston Lakeside, LLC

In 2007, Weston Lakeside, LLC, an unconsolidated affiliate in which we had a 50.0% ownership interest, sold 332 rental residential units located in the Raleigh, NC metropolitan area to a third party for gross proceeds of $45.0 million and paid off all of the outstanding debt and various development related costs. The joint venture recorded a gain of $11.3 million in 2007 related to this sale. We recorded $5.0 million as our proportionate share through equity in earnings of unconsolidated affiliates in 2007. Our share of the gain was less than 50.0% due to our joint venture partner's preferred return as the developer. We received aggregate net distributions of $6.2 million.

- Other Activities

We receive development, management and leasing fees for services provided to certain of our joint ventures. These fees are recognized as income to the extent of our respective joint venture partner's interest in rental and other

revenues. In the years ended December 31, 2009, 2008 and 2007, we recognized $2.1 million, $2.1 million and $2.2 million, respectively, of development, management and leasing fees from our unconsolidated joint ventures.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

Consolidated Affiliates

The following summarizes our consolidated affiliates:

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

We have a 50.0% ownership interest in Markel. We are the manager and leasing agent for Markel's properties located in Richmond, VA and receive customary management and leasing fees. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. The organizational documents of Markel require the entity to be liquidated through the sale of its assets upon reaching December 31, 2100. As controlling partner, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the noncontrolling interest partner in these partially owned properties only if the net proceeds received by the entity from the sale of our assets warrant a distribution as determined by the agreement. We estimate the value of noncontrolling interest distributions would have been approximately $12.9 million had the entity been liquidated at December 31, 2009. This estimated settlement value is based on the fair value of the underlying properties which is based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates and costs to operate each property. If the entity's underlying assets are worth less than the underlying liabilities on the date of such liquidation, we would have no obligation to remit any consideration to the noncontrolling interest holder.

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

We have a 20.0% interest in Harborview. We are the manager and leasing agent for Harborview's property located in Tampa, FL and receive customary management and leasing fees. As further described in Note 7, we account for this joint venture as a financing obligation since our partner has the right to put its interest back to us in the future.

- Plaza Residential, LLC ("Plaza Residential")

In 2007, through our taxable REIT subsidiary, we contributed $10.6 million for a majority owned interest in Plaza Residential, which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower being developed by us in Raleigh, NC. Our partner has a 7.0% ownership interest in the joint venture, performed development services for the joint venture for a market development fee, guaranteed 40.0% of the construction financing and will receive 35.0% of the net profits from the joint venture once the partners have received distributions equal to their equity plus a 12.0% return on their equity. We consolidate this joint venture since we own the majority interest. We have estimated our net economic interest through the completion of this project to be approximately 86.0% at December 31, 2009 and have recorded our partner's noncontrolling interest accordingly. Our estimate of our partner's economic ownership, which is impacted by our partner's preferred return, decreased from 25%

at December 31, 2008 to 14% at December 31, 2009 due to changes in our assumptions related primarily to projected timing of sales and estimated net gains.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Investments– Continued

For-sale residential condominiums in our Consolidated Balance Sheets include completed, but unsold, condominium inventory owned by Plaza Residential at December 31, 2009 and 2008. We initially record receipts of deposits as other liabilities in our Consolidated Balance Sheets in accordance with the deposit method. We then record completed sales when units close and the remaining net cash is received. We recognize forfeiture of earnest money deposits into income when entitled to claim the forfeited deposit upon legal default. During 2009 and 2008, we received $13.0 million and $28.6 million, respectively, in gross revenues and recorded $12.0 million and $23.0 million, respectively, of cost of goods sold from condominium sales activity. Net gains on for-sale residential condominiums in our Consolidated Statements of Income include gains on the sale of for-sale residential condominiums and forfeitures of earnest money deposits of $0.3 million and $0.6 million, respectively, for the year ended December 31, 2009. Gains on for-sale residential condominiums in our Consolidated Statement of Income include gains on the sale of for-sale residential condominiums and forfeitures of earnest money deposits of $4.4 million and $1.2 million, respectively, for the year ended December 31, 2008. We had no such gains or forfeitures in 2007.

4. Deferred Financing and Leasing Costs

At December 31, 2009 and 2008, we had deferred financing costs of $16.8 million and $14.7 million, respectively, with accumulated amortization of $4.5 million and $7.8 million, respectively. At December 31, 2009 and 2008, we had deferred leasing costs of $108.8 million and $110.8 million, respectively, with related accumulated amortization of $47.6 million and $44.7 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for the years ended December 31, 2009, 2008 and 2007 was $17.8 million, $18.0 million and $16.7 million, respectively. Aggregate amortization of lease incentives (included in rental and other revenues) for the years ended December 31, 2009, 2008 and 2007 was $1.1 million, $1.0 million and $1.0 million, respectively.

The following table sets forth scheduled future amortization for deferred financing and leasing costs at December 31, 2009:

Years Ending December 31,	Amortization
2010	$ 17,465
2011	14,866
2012	12,222
2013	8,504
2014	6,051
Thereafter	14,409
	$ 73,517

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable

Our consolidated mortgages and notes payable consist of the following:

	December 31,	
	2009	2008
Secured indebtedness: (1)		
7.77% mortgage loan due 2009	$ —	$ 78,016
7.87% mortgage loan due 2009	—	30,685
7.05% mortgage loan due 2012	188,088	190,000
6.03% mortgage loan due 2013	130,739	133,241
5.68% mortgage loan due 2013	115,958	118,535
6.88% mortgage loans due 2016	114,610	—
7.5% mortgage loan due 2016	47,108	—
5.74% to 9.00% mortgage loans due between 2009 and 2016 (2), (3)	82,483	83,840
Variable rate construction loans due between 2009 and 2010 (4)	41,741	20,869
	720,727	655,186
Unsecured indebtedness:		
8.125% notes due 2009	—	50,000
5.85% notes due 2017 (5)	390,928	398,999
7.50% notes due 2018	200,000	200,000
Variable rate term loans due between 2011 and 2012 (6)	157,500	137,500
Revolving credit facility due 2013 and 2010, respectively	—	163,000
	748,428	949,499
Total	$ 1,469,155	$ 1,604,685

(1) The mortgage loans payable are secured by real estate assets with an aggregate undepreciated book value of approximately $1.2 billion at December 31, 2009. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term or are prepayable subject to certain conditions including prepayment penalties.

(2) Includes mortgage debt related to SF-HIW Harborview Plaza, LP., a consolidated 20.0% owned joint venture, of $21.9 million and $22.3 million at December 31, 2009 and 2008, respectively. See Note 7.

(3) Includes mortgage debt related to Markel, a consolidated 50.0% owned joint venture, of $35.8 million and $36.6 million at December 31, 2009 and 2008, respectively. See Note 9.

(4) Stated maturity date does not reflect two one-year extension options related to amounts outstanding on our $70.0 million secured construction facility.

(5) This amount is net of amortized original issuance discount of $0.9 million and $1.0 million at December 31, 2009 and 2008, respectively.

(6) The effective interest rates are 3.90% and 1.33% on our $20.0 million and $137.5 million term loans, respectively, as of December 31, 2009.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable - Continued

The following table sets forth the future principal payments, including amortization, due on our mortgages and notes payable at December 31, 2009:

Years Ending December 31,	Principal Amount
2010 (1)	$ 52,860
2011	149,344
2012	240,214
2013	242,782
2014	34,664
Thereafter	749,291
	$ 1,469,155

(1) This amount does not reflect two one-year extension options related to amounts outstanding under our $70.0 million secured construction facility.

In 2009, we obtained a new $400.0 million unsecured revolving credit facility, which replaced our previously existing revolving credit facility. Our new revolving credit facility is scheduled to mature on February 21, 2013 and includes an accordion feature that allows for an additional $50.0 million of borrowing capacity subject to additional lender commitments. Assuming we continue to have three publicly announced ratings from the credit rating agencies, the interest rate and facility fee under our revolving credit facility are based on the lower of the two highest publicly announced ratings. Based on our current credit ratings, the interest rate is LIBOR plus 290 basis points and the annual facility fee is 60 basis points. We expect to use our new revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates. There were no amounts outstanding under our revolving credit facility at December 31, 2009 and February 3, 2010. At December 31, 2009 and February 3, 2010, we had $1.7 million and $1.6 million, respectively, of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2009 and February 3, 2010 was $398.3 and $398.4 million, respectively.

Our $70.0 million secured construction facility, of which $41.7 million was outstanding at December 31, 2009, is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had $28.3 million of availability at December 31, 2009 and February 3, 2010.

In 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes and retired the remaining $107.2 million principal amount of a two-tranched secured loan. We also obtained a $20.0 million, three-year unsecured term loan, a $115.0 million, six and a half-year secured loan and a $47.3 million, seven-year secured loan. We also repurchased $8.2 million principal amount of unsecured notes due 2017.

Debt Covenants

We are currently in compliance with all debt covenants and requirements. 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.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable - Continued

Our revolving credit facility, $137.5 million bank term loan due in February 2011 and $20.0 million bank term loan due in March 2012 also require us to comply with customary operating covenants and various financial requirements, including a requirement that we maintain a ratio of total liabilities to total asset value, as defined in the respective agreements, of no more than 60%. Total asset value depends upon the effective economic capitalization rate (after deducting capital expenditures) used to determine the value of our buildings. Depending upon general economic conditions, the lenders have the good faith right to unilaterally increase the capitalization rate by up to 25 basis points once in any twelve-month period. The lenders have not previously exercised this right. Any such increase in capitalization rates, without a corresponding reduction in total liabilities, could make it more difficult for us to maintain a ratio of total liabilities to total asset value of no more than 60%, which could have an adverse effect on our ability to borrow additional funds under the revolving credit facility. If we were to fail to make a payment when due with respect to any of our other obligations with aggregate unpaid principal of $10.0 million, and such failure remains uncured for more than 120 days, the lenders under our credit facility could provide notice of their intent to accelerate all amounts due thereunder. Upon an event of default on the revolving credit facility, the lenders having at least 66.7% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations.

The Operating Partnership has $390.9 million principal amount of 2017 bonds outstanding and $200.0 million principal amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios, including a requirement that we maintain unencumbered assets of at least 200% of all outstanding unsecured debt. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

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

Other Information

Total interest capitalized to development projects was $4.6 million, $8.3 million and $9.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

6. Derivative Financial Instruments

We terminated our last open interest rate swap in December 2009. We have no outstanding interest rate derivatives at December 31, 2009.

The following table sets forth the fair value of our prior derivative instruments:

	Fair Value as of December 31,	
	2009	2008
Liability Derivatives:		
Derivatives designated as cash flow hedges in other liabilities:		
Interest rate swaps	$ —	$ 1,376

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. Derivative Financial Instruments - Continued

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

	Years Ended December 31,		
	2009	2008	2007
Derivatives Designated as Cash Flow Hedges:			
Amount of unrealized gain/(loss) recognized in AOCL on derivatives (effective portion):			
Interest rate swaps	$ 937	$ (1,376)	$ —
Amount of (gain)/loss reclassified out of AOCL into interest expense (effective portion):			
Interest rate swaps	$ (249)	$ 181	$ 577

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

	Years Ended December 31,		
	2009	2008	2007
Derivatives Not Designated as Hedging Instruments:			
Amount of gain/(loss) recognized in interest expense on derivative:			
Interest rate swaps	$ —	$ 183	$ (183)

7. Financing Arrangements

Our financing obligations consist of the following:

	December 31,	
	2009	2008
SF-HIW Harborview, LP financing obligation	$ 16,957	$ 16,604
Tax increment financing bond	15,374	16,418
Repurchase obligation	4,184	—
Capitalized ground lease obligation	1,191	1,152
Total	$ 37,706	$ 34,174

Harborview

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Financing Arrangements - Continued

As a result, we have established a financing obligation equal to the net equity contributed by the other partner. At the end of each reporting period, the balance of the gross financing obligation is adjusted to equal the greater of the original financing obligation of $12.7 million or the current fair value of the put option discussed above. This financing obligation, net of payments made to our joint venture partner, is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The fair value of the put option was $12.2 million and $13.9 million at December 31, 2009 and 2008, respectively. Additionally, the net income from the operations before depreciation of Harborview Plaza allocable to the 80.0% partner is recorded as interest expense on financing obligation. We continue to depreciate the property and record all of the depreciation on our books. At such time as the put option expires or is otherwise terminated, we will record the transaction as a sale and recognize gain on sale.

Tax Increment Financing Bond

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

Repurchase Obligation

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

Capitalized Ground Lease Obligation

The capitalized ground lease obligation represents an obligation to the lessor of land on which we constructed a building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated at the inception

of the lease using a discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes into interest expense each month for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

8. Commitments and Contingencies

Operating Ground Leases

Certain Wholly Owned Properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the consumer price index or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was $1.6 million, $1.4 million and $1.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Commitments and Contingencies - Continued

The following table sets forth our obligations for future minimum payments on operating ground leases at December 31, 2009:

2010	$ 1,110
2011	1,129
2012	1,150
2013	1,171
2014	1,193
Thereafter	31,114
	$ 36,867

Other Capitalized Lease Obligations

We have other capitalized lease obligations of $0.2 million and $0.1 million related to office equipment, which is included in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

Completion Contracts

We have approximately $6.7 million of completion contracts at December 31, 2009. Completion contracts are defined as payments to be made under current contracts for various construction projects, which we expect to pay in 2010.

Environmental Matters

Substantially all of our in-service and development properties have been subjected to Phase I environmental assessments and, in certain instances, Phase II environmental assessments. Such assessments and/or updates have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our Consolidated Financial Statements. We have $0.2 million and $0.1 million reserved for environmental matters, which is included in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.

DLF I Obligation

At the formation of DLF I, the amount our partner contributed in cash to the venture and subsequently distributed to us was determined to be $7.2 million in excess of the amount required based on its ownership interest and the agreed-upon value of the real estate assets. We are required to repay this amount over 14 years, beginning in the first quarter of 1999. The $7.2 million was discounted to net present value of $3.8 million using a discount rate of 9.62%

specified in the agreement. Payments of $0.6 million were made in each of the years ended December 31, 2009, 2008 and 2007, of which $0.2 million represented imputed interest expense. The balance at December 31, 2009 and 2008 is $1.6 million and $2.0 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Commitments and Contingencies - Continued

Guarantees and Other Obligations

All of our joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees set forth in the following table:

Guarantee Type	Entity	Location	Maturity Date	Maximum Potential Obligation	Accrual at December 31, 2009
Indirect debt	Three Fountains	Des Moines	8/2019	$ 1,718	$ 385
Debt	RRHWoods/ DCP	Des Moines	7/2014	$ 1,336	$ 49
Debt	RRHWoods	Des Moines	11/2011	$ 2,795	$ 15
Indirect debt	RRHWoods	Des Moines	9/2015	$ 3,112	$ 245

At the formation of the KC Orlando joint venture, we committed to fund certain future leasing costs. The remaining commitment at December 31, 2009 and 2008 was $0.1 million and $0.2 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

Litigation, Claims and Assessments

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

9. Noncontrolling Interests

Beginning in the first quarter of 2009, we have modified the measurement and presentation of noncontrolling interests for all periods presented, as described in Note 1.

Noncontrolling Interests in Consolidated Affiliates

Noncontrolling interests in consolidated affiliates, a component of equity, relates to our respective joint venture partners' 50.0% interest in Markel and estimated 14% economic interest in Plaza Residential. Each of our joint venture partners is an unrelated third party.

10. 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 liabilities are our obligations to pay benefits under our deferred compensation plan.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. 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.

Our Level 2 liability are interest rate swaps that were outstanding at December 31, 2008 whose fair value is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are incorporated in the fair values to account for potential nonperformance risk.

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 that we acquired in the fourth quarter of 2007 (see Note 7), 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 December 31, 2009 impairment analysis, which were valued using independent appraisals.

Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates and costs to operate each property.

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

	December 31, 2009	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets)	$ 6,135	$ 6,135	$ —	$ —
	16,871	—	—	16,871

Tax increment financing bond (in prepaid expenses and other assets)							
Impaired real estate assets (see Note 2)		32,000		—		—	32,000
Total Assets	$	55,006	$	6,135	$	—$	48,871
Liabilities:							
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$	6,898	$	6,898	$	—$	—
SF-Harborview Plaza, LP financing obligation		12,230		—		—	12,230
Total Liabilities	$	19,128	$	6,898	$	—$	12,230

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Disclosure About Fair Value of Financial Instruments – Continued

	December 31, 2008	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets)	$ 5,422	$ 5,422	$ —	$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,468	—	—	17,468
Total Assets	$ 22,890	$ 5,422	$ —	$ 17,468
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ —	$ 1,376	$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,522	6,522	—	—
SF-Harborview Plaza, LP financing obligation	13,879	—	—	13,879
Total Liabilities	$ 21,777	$ 6,522	$ 1,376	$ 13,879

The following table sets forth our Level 3 asset and liability:

	December 31, 2009	December 31, 2008
Asset:		
Tax Increment Financing Bond		
Beginning balance	$ 17,468	$ —
Transfer into Level 3	—	20,541
Principal repayment	(890)	(790)
Unrealized gain/(loss) (in AOCL)	293	(2,283)
Ending balance	$ 16,871	$ 17,468
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance - gross financing obligation	$ 13,879	$ 14,155
Principal repayments	(487)	(1,579)
Interest expense on financing obligation	1,807	1,757

Unrealized gain		(2,481)		(454)
Ending balance - gross financing obligation		12,718		13,879
Valuation allowance, net		4,239		2,725
Net financing obligation	$	16,957	$	16,604

The tax increment financing bond is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value at December 31, 2009 was $2.4 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will 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. There is no legal right of offset with the liability recorded as a financing obligation related to this tax increment financing bond.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. Disclosure About Fair Value of Financial Instruments – Continued

The SF-Harborview Plaza, LP financing obligation is carried at the greater of estimated fair value or original financing obligation of $12.7 million, net of the related valuation allowance as described in Note 7. The fair value was $12.2 million and $13.9 million at December 31, 2009 and 2008, respectively.

The following table sets forth the carrying amounts and fair values of our financial instruments:

	Carrying Amount	Fair Value
December 31, 2009		
Cash and cash equivalents	$ 23,519	$ 23,519
Restricted cash	$ 6,841	$ 6,841
Accounts and notes receivable	$ 24,212	$ 24,212
Marketable securities (in prepaid expenses and other assets)	$ 6,135	$ 6,135
Tax increment financing bond (in prepaid expenses and other assets)	$ 16,871	$ 16,871
Mortgages and notes payable	$ 1,469,155	$ 1,440,317
Financing obligations	$ 37,706	$ 31,664
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,898	$ 6,898
December 31, 2008		
Cash and cash equivalents	$ 13,649	$ 13,649
Restricted cash	$ 2,258	$ 2,258
Accounts and notes receivable	$ 27,289	$ 27,289
Marketable securities (in prepaid expenses and other assets)	$ 5,422	$ 5,422
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,468	$ 17,468
Mortgages and notes payable	$ 1,604,685	$ 1,330,899
Financing obligations	$ 34,174	$ 32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ 1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,522	$ 6,522

The fair values of our mortgages and notes payable and financing obligations were estimated using the income and market approaches to approximate the price that would be paid in an orderly transaction between market participants on the measurement date. The carrying values of our cash and cash equivalents and accounts and notes receivable are equal to or approximate fair value.

11. Equity

Common Unit Distributions

Distributions declared and paid per Common Unit aggregated $1.70 for each of the years ended December 31, 2009, 2008 and 2007.

Redeemable Common Units

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

11. Equity - Continued

Preferred Units

The following table sets forth our Preferred Units:

Preferred Unit Issuances	Issue Date	Number of Units Outstanding (in thousands)		Carrying Value		Liquidation Preference Per Unit	Optional Redemption Date		Annual Distributions Payable Per Unit
December 31, 2009 and 2008:									
8.625% Series A Cumulative Redeemable	2/12/1997	29	$	29,092	$	1,000	2/12/2027	$	86.25
8.000% Series B Cumulative Redeemable	9/25/1997	2,100	$	52,500	$	25	9/25/2002	$	2.00

In 2008, the Company repurchased 53,845 outstanding 8.625% Series A Preferred Units for an aggregate purchase price of $52.5 million. In connection with this repurchase, the $0.1 million excess of the purchase cost over the net carrying amount of the repurchased units was recorded as a reduction to net income available for common unitholders in 2008.

In 2007, we redeemed 1.6 million of our outstanding 8.000% Series B Preferred Units, for an aggregate purchase price of $40.0 million. In connection with this redemption, the $1.4 million excess of the redemption cost over the net carrying amount of the redeemed units was recorded as a reduction to net income available for common unitholders in 2007. In 2007, we also repurchased 22,008 of our outstanding 8.625% Series A Preferred Units for an aggregate purchase price of $22.3 million. In connection with this repurchase, the $0.8 million excess of the purchase cost over the net carrying amount of the repurchased units was recorded as a reduction to net income available for common unitholders in 2007.

Warrants

Warrants to acquire Common Stock were issued in 1997 and 1999 in connection with property acquisitions. Upon exercise of a warrant, the Company will contribute the exercise price to the Operating Partnership in exchange for Common Units. Therefore, the Operating Partnership accounts for such warrants as if issued by the Operating Partnership. In 2009, there were no warrants exercised. In 2008, 10,000 warrants with an exercise price of $32.50 were exercised. In 2007, 10,000 warrants with an exercise price of $34.13 were exercised. At December 31, 2009, there are 15,000 warrants outstanding with an exercise price of $32.50. These warrants have no expiration date.

12. Employee Benefit Plans

Officer, Management and Director Compensation Programs

The officers of the Company, which is the sole general partner of the Operating Partnership, participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. In addition to considering the pay practices of the Company's peer group in determining each officer's incentive payment percentage, the officer's ability to influence the Company's performance is also considered. Each officer has a target annual non-equity incentive payment percentage that ranges from 20% to 130% of base salary depending on the officer's position. The officer's actual incentive payment for the year is the product of the target annual incentive payment percentage times a "performance factor," which can range from zero to 200%. This performance factor depends upon the relationship between how various performance criteria compare with predetermined goals. For an officer who has division responsibilities, goals for certain performance criteria are based partly on the division's actual performance relative to that division's established goals and partly on actual total performance. Incentive payments are accrued and expensed in the year earned and are generally paid in the first quarter of the following year.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

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

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

	December 31,	
	2009	2008
Outstanding stock options and warrants	1,482,773	1,504,250
Possible future issuance under equity incentive plans	3,000,000	773,532
	4,482,773	2,277,782

The Company's officers generally receive annual grants of stock options and restricted stock on or about March 1 of each year. Grants made prior to May 13, 2009 were made under the Amended and Restated 1994 Stock Option Plan. Grants subsequent to that date will be made under the 2009 Long-Term Equity Incentive Plan. Restricted stock grants are also made annually to directors and certain non-officer employees. At December 31, 2009, there was remaining availability of 3.0 million shares of Common Stock reserved for future issuance under the 2009 Long-Term Equity Incentive Plan, of which no more than 1.0 million can be in the form of restricted stock.

Additional total return-based restricted stock and performance-based restricted stock may be issued at the end of the three-year periods if actual performance exceeds certain levels of performance. Such additional shares, if any, would be fully vested when issued. We will also accrue and record expense for additional performance-based shares during the three-year period to the extent issuance of the additional shares is expected based on our current and projected actual performance. No expense is recorded for additional shares of total return-based restricted stock that may be issued at the end of the three-year period since that possibility is already reflected in the grant date fair value.

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

During the years ended December 31, 2009, 2008 and 2007, we recognized $6.6 million, $6.7 million and $5.2 million, respectively, of share-based compensation expense. Because we generally do not pay income taxes we do not realize tax benefits on share-based payments. At December 31, 2009, there was $7.9 million of total unrecognized share-based compensation costs, which will be recognized over vesting periods that have a weighted average remaining term of 1.5 years.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

- Stock Options

Stock options issued prior to 2005 vest ratably over four years and remain outstanding for 10 years. Stock options issued beginning in 2005 vest ratably over a four-year period and remain outstanding for seven years. The value of all options as of the date of grant is calculated using the Black-Scholes option-pricing model and is amortized over the respective vesting or service period. The fair values of options granted during 2009, 2008 and 2007 were $1.82, $3.18 and $6.30, respectively, per option. The fair values of the options granted were determined at the grant dates using the following assumptions:

	2009	2008	2007
Risk free interest rate (1)	2.31%	2.67%	4.51%
Common stock dividend yield (2)	8.96%	5.77%	4.07%
Expected volatility (3)	29.9%	22.64%	18.95%
Average expected option life (years) (4)	5.75	5.75	5.75
Options granted	394,044	319,091	146,347

(1) Represents the interest rate on US treasury bonds as of the grant date having the same life as the estimated life of the option grants.

(2) The dividend yield is calculated utilizing the dividends paid for the previous one-year period and the per share price of Common Stock on the date of grant.

(3) Based on the historical volatility of Common Stock over a period relevant to the related stock option grant.

(4) The average expected option life for the 2009, 2008 and 2007 grants is based on an analysis of the Company's historical data.

The following table sets forth stock option grants:

	Options Outstanding	
	Number of	Weighted

	Shares	Average Exercise Price
Balances at December 31, 2006	2,975,071	$ 24.67
Options granted	146,347	41.83
Options cancelled	(115,228)	30.14
Options exercised	(1,096,369)	23.28
Balances at December 31, 2007	1,909,821	26.45
Options granted	319,091	29.48
Options cancelled	(16,331)	31.66
Options exercised	(723,331)	22.95
Balances at December 31, 2008	1,489,250	28.74
Options granted	394,044	19.00
Options cancelled	(111,590)	27.65
Options exercised	(303,931)	24.18
Balances at December 31, 2009 (1) (2)	1,467,773	$ 27.15

(1) The outstanding options at December 31, 2009 had a weighted average remaining life of 4.4 years and intrinsic value of $10.3 million.

(2) The Company had 727,243 options exercisable at December 31, 2009 with weighted average exercise price of $29.12, weighted average remaining life of 4.3 years and intrinsic value of $3.7 million. At December 31, 2009, 70,577 options exercisable at December 31, 2009 had exercise prices higher than the market price of our Common Stock.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

Cash received or receivable from options exercised was $7.4 million, $15.9 million and $12.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $2.0 million, $9.6 million and $23.4 million, respectively. The total intrinsic value of options outstanding at December 31, 2009, 2008 and 2007 was $10.3 million, $1.7 million and $8.0 million, respectively. The Company generally does not permit the net cash settlement of exercised stock options, but does permit net share settlement so long as the shares received are held for at least one year. The Company has a policy of issuing new shares to satisfy stock option exercises.

- Time-Based Restricted Stock

Shares of time-based restricted stock issued to the Company's directors, officers and other employees prior to 2005 generally vest 50% three years from the date of grant and the remaining 50% five years from date of grant. Shares of time-based restricted stock that were issued to officers and employees in 2005 vest one-third on the third anniversary, one-third on the fourth anniversary and one-third on the fifth anniversary of the date of grant. Shares of time-based restricted stock that were issued to officers and employees beginning in 2006 generally vest 25% on the first, second, third and fourth anniversary dates, respectively. Shares of time-based restricted stock issued to directors generally vest 25% on January 1 of each successive year after the grant date. The value of grants of time-based restricted stock is based on the market value of Common Stock as of the date of grant and is amortized to expense over the respective vesting or service periods.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2006	255,120	$ 27.12
Awarded and issued (1)	205,283	40.78
Vested (2)	(73,947)	27.35
Forfeited	(29,959)	27.63
Restricted shares outstanding at December 31, 2007	356,497	34.89
Awarded and issued (1)	92,150	30.13
Vested (2)	(113,823)	33.13

Forfeited	(5,029)	32.11
Restricted shares outstanding at December 31, 2008	329,795	34.21
Awarded and issued (1)	128,384	19.33
Vested (2)	(132,779)	33.38
Forfeited	(9,326)	31.26
Restricted shares outstanding at December 31, 2009	316,074	$ 28.60

(1) The fair value at grant date of time-based restricted stock issued during the years ended December 31, 2009, 2008 and 2007 was $2.5 million, $2.8 million and $8.4 million, respectively.

(2) The vesting date fair value of time-based restricted stock that vested during the years ended December 31, 2009, 2008 and 2007 was $2.9 million, $4.8 million and $3.2 million, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

- Total Return-Based and Performance-Based Restricted Stock

During 2007, the Company also issued shares of restricted stock to officers that vest from zero to 200% based on its total shareholder return in comparison to total returns of a selected group of peer companies over a three-year period. The grants also contained a provision allowing for partial vesting if the Company's annual total return in any given year of the three-year period exceeded 9% on an absolute basis.

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

During 2008 and 2007, the Company also issued shares of performance-based restricted stock to officers that will vest pursuant to certain performance-based criteria. The performance-based criteria are based on whether or not we meet or exceed at the end of three-year performance periods certain operating and financial goals established under our Strategic Plan. To the extent actual performance equals or exceeds threshold performance goals, the portion of shares of performance-based restricted stock that vest can range from 50% to 100%. If actual performance does not meet such threshold goals, none of the performance-based restricted stock will vest. The fair value of performance-based restricted share grants is based on the market value of Common Stock as of the date of grant and the estimated performance to be achieved at the end of the three-year period. Such fair value is being amortized to expense during the period from grant date to the vesting dates, adjusting for the expected level of vesting that will occur at those dates.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2006	106,646	$ 28.58
Awarded and issued (1)	41,480	41.81
Vested (2)	(3,778)	26.82
Forfeited	(8,876)	30.92

Restricted shares outstanding at December 31, 2007	135,472	32.52
Awarded and issued (1)	77,878	29.75
Vested (2)	(59,892)	26.82
Forfeited	(2,116)	29.23
Restricted shares outstanding at December 31, 2008	151,342	33.39
Awarded and issued (1)	127,594	15.01
Vested (2)	(68,929)	32.66
Forfeited	(7,232)	34.14
Restricted shares outstanding at December 31, 2009	202,775	$ 22.05

(1) The fair value at grant date of performance-based and total return-based restricted stock issued during the years ended December 31, 2009, 2008 and 2007 was $1.9 million, $2.3 million and $1.7 million, respectively.

(2) The vesting date fair value of performance-based and total return-based restricted stock that vested during the years ended December 31, 2009, 2008 and 2007 was $2.6 million, $2.4 million and $0.2 million, respectively.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

Retirement Plan

In 2006, the Company adopted a retirement plan applicable to all employees, including officers, who, at the time of retirement, have at least 30 years of continuous qualified service or are at least 55 years old and have at least 10 years of continuous qualified service. Subject to advance retirement notice and execution of a non-compete agreement with us, eligible retirees are entitled to receive a pro rata amount of the annual incentive payment earned during the year of retirement. Stock options and restricted stock granted by the Company to such eligible retiree during his or her employment would be non-forfeitable and vest according to the terms of their original grants. The benefits of this retirement plan apply only to restricted stock and stock option grants beginning in 2006 and have been phased in 25% on March 1, 2006 and 25% on each anniversary thereof. For employees who meet the age and service eligibility requirements, 50% of their 2007 grants, 75% of their 2008 grants and 100% of their 2009 grants were deemed fully vested at the grant date, which increased compensation expense by approximately $0.6 million, $0.6 million and $0.3 million in the years ended December 31, 2009, 2008 and 2007, respectively.

Deferred Compensation

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

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

	Years Ended December 31,		
	2009	2008	2007
Beginning deferred compensation liability	$ 6,522	$ 7,867	$ 8,682
Contributions to deferred compensation plans	—	1,574	711
	1,497	(2,177)	(128)

Mark-to-market adjustment to deferred compensation (general and administrative expense)			
Distributions from deferred compensation plans	(1,121)	(742)	(1,398)
Total deferred compensation liability	$ 6,898	$ 6,522	$ 7,867

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Employee Benefit Plans - Continued

401(k) Savings Plan

We have a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. We contribute amounts for each participant at a rate of 75% of the employee's contribution (up to 6% of each employee's bi-weekly salary and cash incentives subject to statutory limits). During the years ended December 31, 2009, 2008 and 2007, we contributed $1.0 million, $1.1 million and $1.2 million, respectively, to the 401(k) savings plan. The assets of this qualified plan are not included in our Consolidated Balance Sheets since the assets are not owned by us. Administrative expenses of the plan are paid by us.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan pursuant to which employees generally may contribute up to 25.0% of their cash compensation for the purchase of Common Stock. At the end of each three-month offering period, each participant's account balance, which includes accrued dividends, is applied to acquire shares of Common Stock at a cost that is calculated at 85.0% of the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. In the years ended December 31, 2009, 2008 and 2007, the Company issued 37,287, 29,324 and 16,937 shares, respectively, of Common Stock under the Employee Stock Purchase Plan. The discount on newly issued shares is expensed by us as additional compensation and aggregated $0.3 million, $0.2 million and $0.2 million in the years ended December 31, 2009, 2008 and 2007, respectively.

13. Comprehensive Income and Accumulated Other Comprehensive Loss

Comprehensive income represents net income plus the changes in certain amounts deferred in accumulated other comprehensive loss related to hedging activities and changes in fair market value of an available for-sale security not reflected in our Consolidated Statements of Income. The components of comprehensive income are as follows:

	Years Ended December 31,		
	2009	2008	2007
Net income	$ 61,640	$ 35,483	$ 94,895
Other comprehensive income:			
Unrealized gain/(loss) on tax increment financing bond	293	(2,659)	—
Unrealized gains/(losses) on cash flow hedges	937	(1,376)	—
Amortization of past cash flow hedges	(249)	181	577
Total other comprehensive income/(loss)	981	(3,854)	577
Total comprehensive income	$ 62,621	$ 31,629	$ 95,472

Accumulated other comprehensive loss represents certain amounts deferred related to hedging activities and an available for-sale security. The components of accumulated other comprehensive loss are as follows:

	December 31,	
	2009	2008
Tax increment financing bond	$ 2,366	$ 2,659
Cash flow hedges	1,445	2,133
	$ 3,811	$ 4,792

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

14. Rental and Other Revenues; Rental Property And Other Expenses

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

	Years Ended December 31,		
	2009	2008	2007
Contractual rents, net	$ 397,903	$ 387,257	$ 359,297
Straight-line rental income, net	3,545	6,147	7,135
Amortization of lease incentives	(1,100)	(1,020)	(939)
Property operating expense recoveries, net	45,009	46,546	41,264
Lease termination fees	1,813	2,561	1,700
Fee income	5,155	5,149	6,494
Other miscellaneous operating income	1,701	3,651	3,458
	$ 454,026	$ 450,291	$ 418,409

The following table sets forth future minimum base rents to be received from customers over the next five years and thereafter for leases in effect at December 31, 2009 for the Wholly Owned Properties:

2010	$ 390,391
2011	349,927
2012	286,339
2013	228,896
2014	194,190
Thereafter	598,329
	$ 2,048,072

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

Years Ended December 31,

	2009	2008	2007
Maintenance, cleaning and general building	$ 56,870	$ 58,508	$ 53,051
Utilities, insurance and real estate taxes	91,934	87,351	80,262
Property management and administrative expenses	11,930	11,605	11,242
Other miscellaneous operating expenses	2,995	4,238	4,481
	$ 163,729	$ 161,702	$ 149,036

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

15. Discontinued Operations

As part of our business strategy, we from time to time selectively dispose of non-core properties. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 2.5 million square feet of office, industrial and retail properties and 13 rental residential units sold during 2009, 2008 and 2007. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions.

	Years Ended December 31,		
	2009	2008	2007
Rental and other revenues	$ 5,284	$ 15,570	$ 25,694
Operating expenses:			
Rental property and other expenses	2,031	6,015	11,117
Depreciation and amortization	835	2,947	5,515
Total operating expenses	2,866	8,962	16,632
Interest expense	—	—	17
Interest and other income	—	31	59
Income before gains on disposition of discontinued operations	2,418	6,639	9,104
Net gains on disposition of discontinued operations	21,466	18,485	34,477
Total discontinued operations	$ 23,884	$ 25,124	$ 43,581
Carrying value of assets held for sale and assets sold that qualified for discontinued operations during the year	$ 54,686	$ 92,592	$ 164,108

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

	December 31,	
	2009	2008
Assets:		
Land	$ 867	$ 867
Buildings and tenant improvements	3,876	3,876
Land held for development	1,197	1,197
Accumulated depreciation	(1,484)	(1,387)
Net real estate assets	4,456	4,553
Deferred leasing costs, net	209	225

Accrued straight line rents receivable		289		273
Prepaid expenses and other assets		77		45
Real estate and other assets, net, held for sale	$	5,031	$	5,096
Tenant security deposits, deferred rents and accrued costs (1)	$	12	$	9

(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)

16. Earnings Per Unit

Beginning in the first quarter of 2009, we have modified our calculation of weighted average units, basic and diluted, to include the total number of restricted units outstanding, as described in Note 1. The following table sets forth the computation of basic and diluted earnings per unit:

	Years Ended December 31,		
	2009	2008	2007
Earnings per common unit - basic:			
Numerator:			
Income from continuing operations	$ 37,756	$ 10,359	$ 51,314
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(11)	(2,041)	(679)
Distributions on preferred units (1)	(6,708)	(9,804)	(13,477)
Excess of preferred unit redemption/repurchase cost over carrying value (1)	—	(108)	(2,285)
Income/(loss) from continuing operations available for common unitholders	31,037	(1,594)	34,873
Income from discontinued operations	23,884	25,124	43,581
Net income available for common unitholders	$ 54,921	$ 23,530	$ 78,454
Denominator:			
Denominator for basic earnings per Common Unit – weighted average units	71,591	62,882	60,710
Earnings per common unit - basic:			
Income/(loss) from continuing operations available for common unitholders	$ 0.43	$ (0.03)	$ 0.57
Income from discontinued operations available for common unitholders	0.34	0.40	0.72
Net income available for common unitholders	$ 0.77	$ 0.37	$ 1.29
Earnings per common unit - diluted:			
Numerator:			
Income from continuing operations	$ 37,756	$ 10,359	$ 51,314
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(11)	(2,041)	(679)
Distributions on preferred units (1)	(6,708)	(9,804)	(13,477)
Excess of preferred unit redemption/repurchase cost over carrying value (1)	—	(108)	(2,285)
Income/(loss) from continuing operations available for common unitholders	31,037	(1,594)	34,873
Income from discontinued operations	23,884	25,124	43,581

Net income available for common unitholders	$ 54,921	$ 23,530	$ 78,454
Denominator:			
Denominator for basic earnings per Common Unit –weighted average units	71,591	62,882	60,710
Add:			
Stock options using the treasury method	79	—	663
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (2)	71,670	62,882	61,373
Earnings per common unit - diluted:			
Income/(loss) from continuing operations available for common unitholders	$ 0.43	$ (0.03)	$ 0.57
Income from discontinued operations available for common unitholders	0.34	0.40	0.71
Net income available for common unitholders	$ 0.77	$ 0.37	$ 1.28

(1) For additional disclosures regarding outstanding Preferred Units, see Note 11 included herein.

(2) Options and warrants aggregating approximately 1.0 million, 1.4 million and 0.1 million units were outstanding during the years ended December 31, 2009, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per unit because the impact of including such units would be anti-dilutive to the earnings per unit calculation.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

17. Income Taxes

Our Consolidated Financial Statements include the operations of the Company's taxable REIT subsidiary, which is not entitled to the dividends paid deduction and is subject to corporate, state and local income taxes. The taxable REIT subsidiary has operated at a cumulative taxable loss through December 31, 2009 of approximately $10.8 million and has paid no income taxes since its formation. In addition to the $4.2 million deferred tax asset for these cumulative tax loss carryforwards, the taxable REIT subsidiary also had net deferred tax liabilities of approximately $2.9 million comprised primarily of tax versus book basis differences in certain investments and depreciable assets held by the taxable REIT subsidiary. Because the future tax benefit of the cumulative losses is not assured, the approximate $1.3 million net deferred tax asset position of the taxable REIT subsidiary has been fully reserved as management does not believe that it is more likely than not that the net deferred tax asset will be realized. The tax benefit of the cumulative losses could be recognized for financial reporting purposes in future periods to the extent the taxable REIT subsidiary generates sufficient taxable income. Other than income taxes related to its taxable REIT subsidiary, the Operating Partnership recorded state income tax expense in rental property and other expenses of $0.5 million, $0.2 million and $0.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The minimum dividend per share of Common Stock required for us to maintain our REIT status was $0.89, $0.76 and $0.54 per share in 2009, 2008 and 2007, respectively. Continued qualification as a REIT depends on our ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests prescribed in the Code. The tax basis of our assets (net of accumulated tax depreciation and amortization) and liabilities was approximately $2.4 billion and $1.6 billion, respectively, at December 31, 2009 and was approximately $2.4 billion and $1.7 billion, respectively, at December 31, 2008.

On January 1, 2007, the Operating Partnership recorded no liabilities for uncertain tax positions. However, the Company recorded a $1.4 million liability, which included $0.2 million of accrued interest, for an uncertain tax position, with the related expense reflected as a reduction to the beginning balance of distributions in excess of net earnings. This liability was included in accounts payable, accrued expenses and other liabilities. During the third quarter of 2007, the liability for the uncertain tax position was released, and income recognized, upon the expiration of the applicable statute of limitations. If this liability for the uncertain tax position and any related interest or penalties had ever been paid by the Company, the Operating Partnership would have reimbursed the Company for these costs, as provided under the partnership agreement.

The Company is subject to federal, state and local income tax examinations by tax authorities for 2006 through 2009.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information

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

The accounting policies of the segments are the same as those described in Note 1. All operations are within the United States and, at December 31, 2009, no single customer of the Wholly Owned Properties generated more than 10% of our consolidated revenues during 2009.

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

	Years Ended December 31,		
	2009	2008	2007
Rental and Other Revenues: (1)			
Office:			
Atlanta, GA	$ 48,707	$ 47,066	$ 43,545
Greenville, SC	14,011	13,982	13,542
Kansas City, MO	14,840	15,350	14,337
Memphis, TN	30,644	25,853	24,211
Nashville, TN	60,555	60,194	50,245
Orlando, FL	11,810	11,403	8,787
Piedmont Triad, NC	25,357	25,771	26,815
Raleigh, NC	73,080	70,264	63,870
Richmond, VA	46,620	47,974	45,124
Tampa, FL	67,298	65,857	61,516
Total Office Segment	392,922	383,714	351,992
Industrial:			
Atlanta, GA	15,612	15,722	15,950
Piedmont Triad, NC	14,102	14,762	13,689
Total Industrial Segment	29,714	30,484	29,639
Retail:			
Kansas City, MO	29,999	34,634	35,385
Piedmont Triad, NC	185	221	219

Raleigh, NC	120	36	—
Total Retail Segment	30,304	34,891	35,604
Residential:			
Kansas City, MO	1,086	1,202	1,174
Total Residential Segment	1,086	1,202	1,174
Total Rental and Other Revenues	$ 454,026	$ 450,291	$ 418,409

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information - Continued

	Years Ended December 31,		
	2009	2008	2007
Net Operating Income: (1)			
Office:			
Atlanta, GA	$ 30,802	$ 28,842	$ 28,448
Greenville, SC	8,719	8,813	8,377
Kansas City, MO	9,084	9,250	8,394
Memphis, TN	17,725	15,149	13,654
Nashville, TN	39,128	39,661	32,205
Orlando, FL	6,276	6,306	4,453
Piedmont Triad, NC	16,486	16,072	17,125
Raleigh, NC	49,280	46,173	41,312
Richmond, VA	32,072	32,231	30,892
Tampa, FL	40,146	39,355	36,697
Total Office Segment	249,718	241,852	221,557
Industrial:			
Atlanta, GA	11,603	11,914	12,462
Piedmont Triad, NC	10,698	11,471	10,698
Total Industrial Segment	22,301	23,385	23,160
Retail:			
Atlanta, GA (2)	—	(26)	(34)
Kansas City, MO	18,204	22,580	24,013
Piedmont Triad, NC	12	177	191
Raleigh, NC (2)	9	(60)	(88)
Total Retail Segment	18,225	22,671	24,082
Residential:			
Kansas City, MO	581	715	659
Raleigh, NC (2)	(528)	(34)	(85)
Total Residential Segment	53	681	574
Total Net Operating Income	290,297	288,589	269,373
Reconciliation to income from continuing operations before disposition of property and condominiums, insurance settlement and equity in earnings of unconsolidated affiliates:			
Depreciation and amortization	(131,048)	(124,673)	(118,341)
Impairment of assets held for use	(13,518)	(32,846)	(789)

General and administrative expense	(37,208)	(38,187)	(41,930)
Interest expense	(86,872)	(98,492)	(100,239)
Interest and other income	9,550	3,759	6,372
Income/(loss) from continuing operations before disposition of property and condominiums, insurance settlement and equity in earnings of unconsolidated affiliates	$ 31,201	$ (1,850)	$ 14,446

(1) Net of discontinued operations.

(2) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for the respective product type.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Segment Information - Continued

	December 31,		
	2009	2008	2007
Total Assets:			
Office:			
Atlanta, GA	$ 275,464	$ 277,472	$ 276,283
Baltimore, MD	1,787	1,793	10,155
Greenville, SC	78,567	83,554	87,663
Kansas City, MO	85,681	87,954	104,076
Memphis, TN	220,722	187,316	134,962
Nashville, TN	338,124	348,068	349,351
Orlando, FL	48,821	50,852	51,361
Piedmont Triad, NC	141,971	148,511	182,470
Raleigh, NC	464,729	469,448	442,434
Richmond, VA	249,881	257,221	259,707
Tampa, FL	393,812	379,146	389,407
Total Office Segment	2,299,559	2,291,335	2,287,869
Industrial:			
Atlanta, GA	136,570	137,510	124,759
Kansas City, MO	—	123	152
Piedmont Triad, NC	92,300	100,429	108,234
Total Industrial Segment	228,870	238,062	233,145
Retail:			
Atlanta, GA	1,044	1,070	978
Kansas City, MO	175,757	224,603	230,556
Piedmont Triad, NC	1,082	10,423	7,960
Raleigh, NC	6,048	4,452	3,225
Total Retail Segment	183,931	240,548	242,719
Residential:			
Kansas City, MO	6,129	6,471	6,834
Orlando, FL	2,147	2,147	2,147
Raleigh, NC	16,291	28,698	18,032
Total Residential Segment	24,567	37,316	27,013
Corporate	148,811	137,595	135,058
Total Assets	$ 2,885,738	$ 2,944,856	$ 2,925,804

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited)

The following tables set forth quarterly financial information for the years ended December 31, 2009 and 2008 and have been adjusted to reflect discontinued operations:

	Year Ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (3)	$ 113,359	$ 112,854	$ 114,144	$ 113,669	$ 454,026
Income/(loss) from continuing operations (1) (3)	12,051	15,121	12,698	(2,114)	37,756
Income/(loss) from discontinued operations (3)	1,112	21,938	(138)	972	23,884
Net income/(loss)	13,163	37,059	12,560	(1,142)	61,640
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(18)	(116)	(24)	147	(11)
Distributions on preferred units	(1,677)	(1,677)	(1,677)	(1,677)	(6,708)
Net income/(loss) available for common unitholders	$ 11,468	$ 35,266	$ 10,859	$ (2,672)	$ 54,921
Earnings per unit-basic:					
Income/(loss) from continuing operations available for common unitholders	$ 0.15	$ 0.19	$ 0.15	$ (0.05)	$ 0.43
Income from discontinued operations available for common unitholders	0.02	0.32	—	0.01	0.34
Net income/(loss) available for common unitholders	$ 0.17	$ 0.51	$ 0.15	$ (0.04)	$ 0.77
Earnings per unit-diluted:					
Income/(loss) from continuing operations available for common unitholders	$ 0.15	$ 0.19	$ 0.15	$ (0.05)	$ 0.43
Income from discontinued operations available for common unitholders	0.02	0.32	—	0.01	0.34
Net income/(loss) available for common unitholders	$ 0.17	$ 0.51	$ 0.15	$ (0.04)	$ 0.77

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited)

	Year Ended December 31, 2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues (3)	$ 110,833	$ 112,373	$ 112,706	$ 114,379	$ 450,291
Income/(loss) from continuing operations (2) (3)	11,213	9,049	11,000	(20,903)	10,359
Income from discontinued operations (3)	5,508	6,952	4,697	7,967	25,124
Net income/(loss)	16,721	16,001	15,697	(12,936)	35,483
Net (income) attributable to noncontrolling interests in consolidated affiliates	(198)	(191)	(201)	(1,451)	(2,041)
Distributions on preferred units	(2,838)	(2,838)	(2,451)	(1,677)	(9,804)
Excess of preferred unit redemption/ repurchase cost over carrying value	—	—	(108)	—	(108)
Net income/(loss) available for common unitholders	$ 13,685	$ 12,972	$ 12,937	$ (16,064)	$ 23,530
Earnings per unit-basic:					
Income/(loss) from continuing operations available for common unitholders	$ 0.14	$ 0.10	$ 0.13	$ (0.36)	$ (0.03)
Income from discontinued operations available for common unitholders	0.09	0.11	0.08	0.12	0.40
Net income/(loss) available for common unitholders	$ 0.23	$ 0.21	$ 0.21	$ (0.24)	$ 0.37
Earnings per unit-diluted:					
Income/(loss) from continuing operations available for common unitholders	$ 0.13	$ 0.10	$ 0.13	$ (0.36)	$ (0.03)
Income from discontinued operations available for common unitholders	0.09	0.11	0.08	0.12	0.40
Net income/(loss) available for common unitholders	$ 0.22	$ 0.21	$ 0.21	$ (0.24)	$ 0.37

(1) Loss from continuing operations for the fourth quarter of 2009 includes a $13.5 million impairment on assets held for use as described in Note 2.

(2) Loss from continuing operations for the fourth quarter of 2008 includes a $32.8 million impairment on assets held for use as described in Note 2.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Quarterly Financial Data (Unaudited) – Continued

(3) The amounts presented for the first three quarters are not equal to the same amounts previously reported in Form 10-Q for each period as a result of discontinued operations (see Note 15). Below is the reconciliation to the amounts previously reported in Form 10-Q:

	Quarter Ended		
	March 31, 2009	June 30, 2009	September 30, 2009
Rental and other revenues, as reported	$ 115,966	$ 113,310	$ 114,229
Discontinued operations	(2,607)	(456)	(85)
Rental and other revenues, as adjusted	$ 113,359	$ 112,854	$ 114,144
Income from continuing operations, as reported	$ 13,090	$ 15,335	$ 12,705
Discontinued operations	(1,039)	(214)	(7)
Income from continuing operations, as adjusted	$ 12,051	$ 15,121	$ 12,698
Income/(loss) from discontinued operations, as reported	$ 73	$ 21,724	$ (145)
Additional discontinued operations from properties sold subsequent to the respective reporting period	1,039	214	7
Income/(loss) from discontinued operations, as adjusted	$ 1,112	$ 21,938	$ (138)

	Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Rental and other revenues, as reported	$ 113,428	$ 112,828	$ 112,755	$ 117,103
Discontinued operations	(2,595)	(455)	(49)	(2,724)
Rental and other revenues, as adjusted	$ 110,833	$ 112,373	$ 112,706	$ 114,379
Income/(loss) from continuing operations, as reported (a)	$ 12,325	$ 9,229	$ 10,958	$ (21,188)
Discontinued operations	(1,112)	(180)	42	285
Income/(loss) from continuing operations, as adjusted	$ 11,213	$ 9,049	$ 11,000	$ (20,903)
Income from discontinued operations, as reported (a)	$ 4,396	$ 6,772	$ 4,739	$ 6,801
	1,112	180	(42)	1,166

Additional discontinued operations from properties sold subsequent to the respective reporting period								
Income from discontinued operations, as adjusted	$	5,508	$	6,952	$	4,697	$	7,967

(a) Income from continuing operations, as reported, for the quarter ended December 31, 2008 was net of income attributable to noncontrolling interests of $1.5 million.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

20. Other Events

Property Insurance Settlement

In 2005, one of our office properties located in southeastern Florida sustained damage in a hurricane. During the first quarter of 2007, we recorded a $4.1 million gain for the non-monetary conversion upon finalization of the insurance claim.

Subsequent Events

We have evaluated events subsequent to December 31, 2009 through February 11, 2010 (date of filing) for purposes of our measurement and disclosure in these Consolidated Financial Statements.

On February 3, 2010, the Board of Directors declared a cash distribution of $0.425 per Common Unit payable on March 9, 2010 to unitholders of record on February 15, 2010, a cash distribution of $21.5625 per 8.625% Series A Preferred Units payable on March 1, 2010 to unitholders of record on February 15, 2010 and a cash distribution of $0.50 per 8.000% Series B Preferred Units payable on March 15, 2010 to unitholders of record on March 1, 2010.

The buyer's right to put a building to us that was disposed of in the fourth quarter of 2009 expired in January 2010. This property was accounted for as a financing arrangement at December 31, 2009 (see Note 7). Accordingly, we recognized a completed sale of the property in the first quarter of 2010.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE II

(in thousands)

As of December 31, 2009, 2008 and 2007

A summary of activity for Valuation and Qualifying Accounts and Reserves

	Balance at December 31, 2008	Additions	Deductions	Balance at December 31, 2009
Allowance for Doubtful Accounts - Straight Line Rent	$ 2,082	$ 2,484	$ (2,123)	$ 2,443
Allowance for Doubtful Accounts - Accounts Receivable	1,281	2,900	(1,371)	2,810
Allowance for Doubtful Accounts - Notes Receivable	459	255	(16)	698
Totals	$ 3,822	$ 5,639	$ (3,510)	$ 5,951

	Balance at December 31, 2007	Additions	Deductions	Balance at December 31, 2008
Allowance for Doubtful Accounts - Straight Line Rent	$ 440	$ 1,905	$ (263)	$ 2,082
Allowance for Doubtful Accounts - Accounts Receivable	935	1,091	(745)	1,281
Allowance for Doubtful Accounts - Notes Receivable	68	395	(4)	459
Totals	$ 1,443	$ 3,391	$ (1,012)	$ 3,822

	Balance at December 31, 2006	Additions	Deductions	Balance at December 31, 2007
Allowance for Doubtful Accounts - Straight Line Rent	$ 301	$ 747	$ (608)	$ 440
Allowance for Doubtful Accounts - Accounts Receivable	1,253	422	(740)	935
Allowance for Doubtful Accounts - Notes Receivable	786	—	(718)	68
Disposition Reserve	75	—	(75)	—
Totals	$ 2,415	$ 1,169	$ (2,141)	$ 1,443

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTE TO SCHEDULE III

(in thousands)

As of December 31, 2009, 2008 and 2007

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

	December 31, 2009	December 31, 2008	December 31, 2007
Real estate assets:			
Beginning balance	$ 3,272,904	$ 3,180,661	$ 3,072,335
Additions:			
Acquisitions, development and improvements	167,624	184,208	247,152
Cost of real estate sold and retired	(99,271)	(91,965)	(138,826)
Ending balance (a)	$ 3,341,257	$ 3,272,904	$ 3,180,661
Accumulated depreciation:			
Beginning balance	$ 714,224	$ 649,765	$ 595,136
Depreciation expense	115,603	110,988	107,793
Real estate sold and retired	(47,270)	(46,529)	(53,164)
Ending balance (b)	$ 782,557	$ 714,224	$ 649,765

(a) Reconciliation of total real estate assets to balance sheet caption:

	2009	2008	2007
Total per Schedule III	$ 3,341,258	$ 3,272,904	$ 3,180,661
Development in progress exclusive of land included in Schedule III	—	61,938	101,661
Real estate assets, net, held for sale	(5,941)	(1,242)	(10,466)
Total real estate assets	$ 3,335,317	$ 3,333,600	$ 3,271,856

(b) Reconciliation of total accumulated depreciation to balance sheet caption:

	2009	2008	2007
Total per Schedule III	$ 782,557	$ 714,224	$ 649,765
Real estate assets, net, held for sale	(1,484)	—	—
Total accumulated depreciation	$ 781,073	$ 714,224	$ 649,765

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

(in thousands)

December 31, 2009

				Initial Costs		Costs Capitalized Subsequent to Acquisitions		Gross Value at Close of Periods				
Description	Segment Type	City	2009 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets	Accumulated Depreciation	C
Atlanta, GA												
1700 Century Circle	Office	Atlanta		$ -	$ 2,482	$ 2	$ (11)	$ 2	$2,471	$2,473	$ 345	
1800 Century Boulevard	Office	Atlanta		1,443	29,081	1	9,863	1,444	38,944	40,388	15,136	
1825 Century Center	Office	Atlanta		864	-	303	15,166	1,167	15,166	16,333	3,606	
1875 Century Boulevard	Office	Atlanta		-	8,924	-	2,235	-	11,159	11,159	3,845	
1900 Century Boulevard	Office	Atlanta		-	4,744	-	917	-	5,661	5,661	1,978	
2200 Century Parkway	Office	Atlanta		-	14,432	-	3,444	-	17,876	17,876	5,979	
2400 Century Center	Office	Atlanta		-	-	406	15,656	406	15,656	16,062	6,104	
2500 Century Center	Office	Atlanta		-	-	328	14,285	328	14,285	14,613	2,250	
2500/2635 Parking Garage	Office	Atlanta										