HIGHWOODS REALTY LTD PARTNERSHIP
Form 10-Q
May 08, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

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

3100 Smoketree Court, Suite 600

Raleigh, NC 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrants telephone number, including area code)

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

Highwoods Properties, Inc. Yes x No o **Highwoods Realty Limited Partnership** Yes x No o

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

Highwoods Properties, Inc. Yes o No o **Highwoods Realty Limited Partnership** Yes o No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Highwoods Realty Limited Partnership

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

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 o No x **Highwoods Realty Limited Partnership** Yes o No x

The Company had 63,814,615 shares of common stock outstanding as of May 1, 2009.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2009

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS	2
HIGHWOODS PROPERTIES, INC.:	
Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008	3
Consolidated Statements of Income for the three months ended March 31, 2009 and 2008	4
Consolidated Statement of Equity for the three months ended March 31, 2009	5
Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008	6
Notes to Consolidated Financial Statements	8
HIGHWOODS REALTY LIMITED PARTNERSHIP:	
Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008	23
Consolidated Statements of Income for the three months ended March 31, 2009 and 2008	24
Consolidated Statement of Equity for the three months ended March 31, 2009	25
Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008	26
Notes to Consolidated Financial Statements	28
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	41
Disclosure Regarding Forward-Looking Statements	41
Results of Operations	42
Liquidity and Capital Resources	44
Critical Accounting Estimates	49
Funds From Operations	49
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	52
ITEM 4. CONTROLS AND PROCEDURES	52
PART II - OTHER INFORMATION	
ITEM 6. EXHIBITS	53

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to Highwoods Properties, Inc. as the Company, Highwoods Realty Limited Partnership as the Operating Partnership, the Company s common stock as Common Stock, the Company s preferred stock as Preferred Stock, 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. 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.

Table of Contents

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	$ 354,629	$ 352,872
Buildings and tenant improvements	2,831,001	2,819,844
Development in process	70,808	61,938
Land held for development	98,946	98,946
	3,355,384	3,333,600
Less-accumulated depreciation	(734,944)	(714,224)
Net real estate assets	2,620,440	2,619,376
For-sale residential condominiums	21,423	24,284
Real estate and other assets, net, held for sale	1,242	1,242
Cash and cash equivalents	7,757	13,757
Restricted cash	2,781	2,258
Accounts receivable, net of allowance of $2,104 and $1,281, respectively	16,748	23,687
Notes receivable, net of allowance of $400 and $459, respectively	3,447	3,602
Accrued straight-line rents receivable, net of allowance of $2,274 and $2,082, respectively	81,513	79,979
Investment in unconsolidated affiliates	67,677	67,723
Deferred financing and leasing costs, net of accumulated amortization of $54,554 and $52,586, respectively	71,607	73,216
Prepaid expenses and other assets	36,015	37,046
Total Assets	$ 2,930,650	$ 2,946,170
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	$ 1,619,276	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	121,285	135,609
Financing obligations	34,509	34,174
Total Liabilities	1,775,070	1,774,468
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	87,119	111,278
Stockholders' 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 at both March 31, 2009 and December 31, 2008	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 2,100,000 shares issued and outstanding at both March 31, 2009 and December 31, 2008	52,500	52,500
Common stock, $.01 par value, 200,000,000 authorized shares;		
63,762,575 and 63,571,705 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	638	636
Additional paid-in capital	1,640,174	1,616,093
Distributions in excess of net earnings	(655,435)	(639,281)
Accumulated other comprehensive loss	(4,698)	(4,792)
Total Stockholders' Equity	1,062,271	1,054,248
Noncontrolling interests in consolidated affiliates	6,190	6,176
Total Equity	1,068,461	1,060,424
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$ 2,930,650	$ 2,946,170

See accompanying notes to consolidated financial statements.

3

Table of Contents

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2009	**2008**
Rental and other revenues	$ 115,966	$ 113,428
Operating expenses:		
Rental property and other expenses	41,797	38,574
Depreciation and amortization	33,424	30,748
General and administrative	8,315	9,711
Total operating expenses	83,536	79,033
Interest expense:		
Contractual	20,579	23,463
Amortization of deferred financing costs	662	638
Financing obligations	735	740
	21,976	24,841
Other income:		
Interest and other income	1,007	795
	1,007	795
Income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	11,461	10,349
Net gains on disposition of property	19	
Gains on for-sale residential condominiums	347	
Equity in earnings of unconsolidated affiliates	1,300	1,989
Income from continuing operations	13,127	12,338
Discontinued operations:		
Income from discontinued operations		670
Net gains on sales of discontinued operations	73	3,726
	73	4,396
Net income	13,200	16,734
Net income attributable to noncontrolling interests in the Operating Partnership	(694)	(893)
Net income attributable to noncontrolling interests in consolidated affiliates	(18)	(198)
Dividends on preferred stock	(1,677)	(2,838)
Net income available for common stockholders	$ 10,811	$ 12,805
Earnings per common share - basic:		
Income from continuing operations available for common stockholders	$ 0.17	$ 0.15
Income from discontinued operations available for common stockholders		0.07
Net income available for common stockholders	$ 0.17	$ 0.22
Weighted average common shares outstanding - basic	63,631	57,217
Earnings per common share - diluted:		
Income from continuing operations available for common stockholders	$ 0.17	$ 0.15
Income from discontinued operations available for common stockholders		0.07
Net income available for common stockholders	$ 0.17	$ 0.22
Weighted average common shares outstanding - diluted	67,705	61,416
Dividends declared per common share	$ 0.425	$ 0.425
Net income available for common stockholders:		
Income from continuing operations available for common stockholders	$ 10,742	$ 8,696
Income from discontinued operations available for common stockholders	69	4,109
Net income available for common stockholders	$ 10,811	$ 12,805

See accompanying notes to consolidated financial statements.

4

Table of Contents

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENT OF EQUITY

Three Months Ended March 31, 2009

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accum-ulated Other Compre-hensive Loss	Non-Control-ling Interests in Consol-idated Affiliates	Distri-butions in Excess of Net Earnings	Total
Balance at December 31, 2008	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	(38,109)				(895)				(895)
Dividends on Common Stock								(26,965)	(26,965)
Dividends on Preferred Stock								(1,677)	(1,677)
Adjustment to noncontrolling interests in the Operating Partnership					23,136				23,136
Distribution to noncontrolling interest in consolidated affiliates							(4)		(4)
Issuances of restricted stock, net	228,979								
Amortization of restricted stock and stock options		2			1,840				1,842
Noncontrolling interests in the Operating Partnership								(694)	(694)
Noncontrolling interests in consolidated affiliates							18	(18)	
Comprehensive income:									
Net income								13,200	13,200
						94			94

Other comprehensive income									
Total comprehensive income									13,294
Balance at March 31, 2009	63,762,575	$ 638	$ 29,092	$ 52,500	$ 1,640,174	$ (4,698)	$ 6,190	$ (655,435)	$ 1,068,461

See accompanying notes to consolidated financial statements.

5

Table of Contents

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Three Months Ended March 31, 2009	2008
Operating activities:		
Net income	$ 13,200	$ 16,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,558	27,358
Amortization of lease commissions	3,866	3,751
Amortization of lease incentives	298	222
Amortization of restricted stock and stock options	1,842	2,227
Amortization of deferred financing costs	662	638
Amortization of accumulated other comprehensive loss	(70)	80
Net gains on disposition of properties	(92)	(3,726)
Gains on disposition of for-sale residential condominiums	(347)	
Equity in earnings of unconsolidated affiliates	(1,300)	(1,989)
Change in financing obligations	335	225
Distributions of earnings from unconsolidated affiliates	1,257	1,899
Changes in operating assets and liabilities:		
Accounts receivable	4,516	2,739
Prepaid expenses and other assets	161	(3,316)
Accrued straight-line rents receivable	(1,534)	(2,403)
Accounts payable, accrued expenses and other liabilities	(6,731)	(23,625)
Net cash provided by operating activities	45,621	20,814
Investing activities:		
Additions to real estate assets and deferred leasing costs	(36,923)	(55,532)
Proceeds from disposition of real estate assets	195	6,072
Proceeds from disposition of for-sale residential condominiums	3,180	
Distributions of capital from unconsolidated affiliates	594	804
Net repayments of notes receivable	155	2,190
Contributions to unconsolidated affiliates	(500)	(841)
Changes in restricted cash and other investing activities	(1,540)	2,387
Net cash used in investing activities	(34,839)	(44,920)
Financing activities:		
Dividends on Common Stock	(26,965)	(24,303)
Dividends on Preferred Stock	(1,677)	(2,838)
Distributions to noncontrolling interests in the Operating Partnership	(1,717)	(1,679)
Distributions to noncontrolling interest in consolidated affiliates	(4)	(258)
Net proceeds from the sale of Common Stock	(895)	(686)
Repurchase of Common Units from noncontrolling interests		(3,293)
Borrowings on revolving credit facility	91,000	203,200
Repayments of revolving credit facility	(57,000)	(184,100)
Borrowings on mortgages and notes payable	36,551	144,579
Repayments of mortgages and notes payable	(55,964)	(102,459)
Additions to deferred financing costs	(111)	(602)
Net cash (used in)/provided by financing activities	(16,782)	27,561
Net (decrease)/increase in cash and cash equivalents	(6,000)	3,455
Cash and cash equivalents at beginning of the period	13,757	3,140
Cash and cash equivalents at end of the period	$ 7,757	$ 6,595

See accompanying notes to consolidated financial statements.

6

Table of Contents

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Three Months Ended March 31, 2009	2008
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of $110 and $200 for 2009 and 2008, respectively)	$ 24,695	$ 29,977

Supplemental disclosure of non-cash investing and financing activities:

The following table summarizes the net asset acquisitions and dispositions subject to mortgage notes payable and other non-cash transactions.

	Three Months Ended March 31, 2009	2008
Assets:		
Prepaid expenses and other assets	$ (34)	$ (561)
	$ (34)	$ (561)
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ (198)	$ 409
	$ (198)	$ 409
Noncontrolling Interests in the Operating Partnership and Equity	$ 164	$ (970)

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

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

(Unaudited)

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). As of March 31, 2009, the Company and/or the Operating Partnership wholly owned: 310 in-service office, industrial and retail properties; 96 rental residential units; 580 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; and an additional eight office and industrial properties under development and 66 for-sale residential condominiums.

The Company is the sole general partner of the Operating Partnership. As of March 31, 2009, the Company owned all of the preferred partnership interests (Preferred Units) and 63.2 million, or 94.0%, of the common partnership interests (Common Units) in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining 4.1 million 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 (the 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.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). As more fully described in Note 10, the Consolidated Statement of Income for the three months ended March 31, 2008 was revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold during 2008 and the first three months of 2009 which qualified for discontinued operations presentation.

Effective January 1, 2009, we adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160), which defines a noncontrolling interest in a consolidated subsidiary as the portion of the equity in a subsidiary not attributable, directly or indirectly, to the parent and requires noncontrolling interests to be presented as a separate component of capital in the consolidated balance sheet subject to the provisions of EITF D-98, Classification and Measurement of Redeemable Securities (EITF D-98). SFAS No. 160 also modifies the presentation of net income by requiring earnings and other comprehensive income to be attributable to controlling and noncontrolling interests. SFAS No. 160 requires retroactive treatment for all periods presented. Below are the steps we have taken as a result of the implementation of this standard with respect 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 as of December 31, 2008.

Net income attributable to noncontrolling interests in consolidated affiliates and the Operating Partnership are no longer deducted when determining net income. As a result, net income for the three months ended March 31, 2008 increased $1.1 million from the previously reported amounts. The adoption of this standard had no effect on our net income available for common stockholders or our earnings per common share.

Table of Contents

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

As prescribed by EITF D-98, we 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 due to its redemption feature, as previously disclosed. As a result, noncontrolling interests in the Operating Partnership as of December 31, 2008 increased $45.6 million from the previously reported amount, with a corresponding decrease to additional paid in capital.

Effective January 1, 2009, we adopted FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). As a result, our weighted average common shares outstanding, basic and diluted, for the three months ended March 31, 2008 were revised from previously reported amounts to include our total number of restricted common shares outstanding. For the three months ended March 31, 2008, weighted average common shares outstanding, basic and diluted, are 487,343 and 365,274 shares higher than previously reported, respectively. Basic earnings per common share for the three months ended March 31, 2008 is $0.01 lower than previously reported. Diluted earnings per common share for the three months ended March 31, 2008 was unchanged from the amount previously reported.

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 and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interest holders. All significant intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2008 Annual Report on Form 10-K.

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.

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. 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. 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. As a REIT, we will not be subject to federal and state income taxes if we distribute at least 100.0% of our taxable income (ordinary income and capital gains, if any) to our stockholders. Under temporary IRS regulations, for 2009, 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.

Noncontrolling Interests

We adopted SFAS No. 160 on January 1, 2009, as described previously, which establishes accounting and presentation standards for noncontrolling interests in subsidiaries.

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

Noncontrolling interests in the Operating Partnership in the accompanying Consolidated Financial Statements relates to the ownership by various individuals and entities other than the Company of Common Units in the Operating Partnership. As of March 31, 2009, noncontrolling interests in the Operating Partnership consisted of approximately 4.1 million Common Units. 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 is reduced and the Company s share in the Operating Partnership is increased by the fair value of each redeemed security. The following table sets forth noncontrolling interests in the Operating Partnership:

	Three Months Ended March 31, 2009	2008
Beginning noncontrolling interests in the Operating Partnership	$ 111,278	$ 119,195
Adjustments to noncontrolling interests in the Operating Partnership	(23,136)	7,623
Redemptions of noncontrolling interest partnership units		(3,293)
Net income attributable to noncontrolling interests in the Operating Partnership	694	893
Distributions to noncontrolling interests in the Operating Partnership	(1,717)	(1,679)
Total noncontrolling interests in the Operating Partnership	$ 87,119	$ 122,739

Noncontrolling interests in consolidated affiliates relates to our respective joint venture partners 50.0% interest in Highwoods-Markel Associates, LLC (Markel) and estimated 19.5% economic interest in Plaza Residential, LLC (Plaza Residential). Each of our joint venture partners is an unrelated third party. We consolidate Markel since we are the general partner and effectively control the major operating and financial policies of the joint venture. We consolidate Plaza Residential since we own the majority interest in and effectively control the joint venture. The following table sets forth noncontrolling interests in consolidated affiliates:

	Three Months Ended March 31, 2009	2008
Beginning noncontrolling interests in consolidated affiliates	$ 6,176	$ 6,804
Net income attributable to noncontrolling interests in consolidated affiliates	18	198
Distributions to noncontrolling interests in consolidated affiliates	(4)	(258)
Total noncontrolling interests in consolidated affiliates	$ 6,190	$ 6,744

Recently Issued Accounting Standards

In April 2009, the FASB issued FASB Staff Position FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1), which requires disclosures of the fair value of financial instruments for interim reporting periods and is effective for interim reporting periods ending after June 15, 2009. We plan to adopt FSP FAS 107-1 on July 1, 2009 and provide disclosures about the fair value of financial instruments for each reporting period subsequent to adoption.

Table of Contents

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 April 2009, the FASB issued FASB Staff Position FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2), which amends the other-than-temporary impairment guidance for debt securities related to the recognition, measurement and disclosure of other-than-temporary impairments and is effective for interim reporting periods ending after June 15, 2009. We plan to adopt FSP FAS 115-2 on July 1, 2009 and do not believe that it will have a material impact on our financial position or results of operations subsequent to adoption.

In April 2009, the FASB issued FASB Staff Position FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly (FSP FAS 157-4), which provides guidance on determining fair value when market activity has decreased and is effective for interim reporting periods ending after June 15, 2009. We plan to adopt FSP FAS 157-4 on July 1, 2009 and do not believe that it will have a material impact on our financial position or results of operations subsequent to adoption.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

We have retained equity interests ranging from 12.5% to 50.0% in various joint ventures with unrelated third parties. We account for our unconsolidated joint ventures 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.

The combined, summarized income statements for our unconsolidated joint ventures were as follows:

	Three Months Ended March 31,	
	2009	2008
Income Statements:		
Revenues	$ 38,869	$ 38,529
Expenses:		
Rental property and other expenses	18,640	18,431
Depreciation and amortization	8,872	7,458
Interest expense	8,975	8,487

Total expenses	36,487	34,376
Net income	$ 2,382	$ 4,153
Our share of:		
Net income **(1)**	$ 1,300	$ 1,989
Depreciation and amortization of real estate assets	$ 3,250	$ 2,935
Interest expense	$ 3,578	$ 3,529

(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 related adjustments.

11

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. INVESTMENT ACTIVITIES

Development

Development in process as of March 31, 2009 includes three office properties aggregating 358,000 rentable square feet and 75 acres of vacant land undergoing infrastructure improvements. The aggregate cost, including leasing commissions, of the three buildings currently is expected to be $82.2 million when fully leased and completed, of which $62.2 million had been incurred as of March 31, 2009. The dollar weighted average pre-leasing of these development projects was approximately 71% as of March 31, 2009.

We currently have four office properties and one industrial property recently completed, but not yet stabilized, aggregating 865,000 square feet. We consider the stabilization date to be the earlier of the originally anticipated stabilization date or when 95% occupancy is achieved. The aggregate cost, including leasing commissions, of these properties currently is expected to be $156.2 million when fully leased, of which $139.5 million had been incurred as of March 31, 2009. The dollar weighted average occupancy of these properties was approximately 67% as of March 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 as of March 31, 2009.

For-Sale Residential Condominiums

In 2007, we and Dominion Partners, LLC formed Plaza Residential. We retained a majority interest in the joint venture, which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower developed by us in Raleigh, NC. For-sale residential condominiums in our Consolidated Balance Sheets include our completed, but unsold, condominium inventory as of March 31, 2009 and December 31, 2008. For the three months ended March 31, 2009, we sold eight condominiums for net sales proceeds of $3.2 million, and recorded gains of $0.3 million. Net sales proceeds include forfeitures of earnest money deposits of $0.3 million for the three months ended March 31, 2009. We recognize forfeiture of earnest money deposits into income when entitled to claim the forfeited deposit upon legal default. Net income attributable to noncontrolling interests in consolidated affiliates in our Consolidated Statement of Income includes our partner s economic share of the net income of the joint venture of $(0.2) million for the three months ended March 31, 2009. Our partners economic share of net income is negative this period since our estimate of our partner s economic ownership decreased from 25.0% as of December 31, 2008 to 19.5% as of March 31, 2009. There were no condominium sales or forfeitures of deposits during the three months ended March 31, 2008.

4. DEFERRED FINANCING AND LEASING COSTS

As of March 31, 2009 and December 31, 2008, we had deferred financing costs of $14.7 million, with related accumulated amortization of $8.4 million and $7.8 million, respectively. As of March 31, 2009 and December 31, 2008, we had deferred leasing costs of $111.5 million and $111.1 million, respectively, with related accumulated amortization of $46.2 million and $44.8 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for these intangibles for the three months ended March 31, 2009 and 2008 was $4.5 million and $4.4 million, respectively.

The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

Remainder of 2009 subsequent to March 31, 2009	$ 11,763
2010	$ 12,930
2011	$ 10,766
2012	$ 9,971
2013	$ 6,624
2014	$ 4,338

12

Table of Contents

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 consisted of the following:

	March 31, 2009	December 31, 2008
Secured mortgage loans	$ 665,747	$ 655,186
Unsecured loans	953,529	949,499
Total	$ 1,619,276	$ 1,604,685

As of March 31, 2009, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of $1.1 billion.

Our $450.0 million unsecured revolving credit facility is scheduled to mature on May 1, 2010. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three major credit rating agencies. Our revolving credit facility had $251.7 million of availability as of March 31, 2009 and had $250.7 million of availability as of May 1, 2009.

Our $70.0 million secured construction facility 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 $39.1 million of availability as of March 31, 2009 and had $34.6 million of availability as of May 1, 2009.

In January 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a $20.0 million, three-year unsecured term loan with a bank lender. The interest rate is LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

Our revolving credit facility, variable rate term loans and the indenture that governs the Operating Partnership s outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Operating Partnership are each currently in compliance with all such requirements.

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. SHARE-BASED PAYMENTS

During the three months ended March 31, 2009, we granted under our Amended and Restated 1994 Stock Option Plan (the Stock Option Plan) 394,044 stock options at an exercise price equal to the closing market price of a share of our common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of $1.80. During the three months ended March 31, 2009, we also granted 128,384 shares of time-based restricted stock and 99,910 shares of total return-based restricted stock with weighted-average grant date fair values per share of $19.33 and $10.13, respectively. We recorded stock-based compensation expense of $1.8 million and $2.2 million during the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, there was $12.2 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 1.7 years.

7. DERIVATIVE 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.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was $0.8 million as of March 31, 2009 and is included in Accumulated Other Comprehensive Loss (AOCL). This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately $0.2 million will be recognized as a decrease to interest expense within the next 12 months.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fix the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for $30.0 million of borrowings and 3.24% for $20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

14

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. DERIVATIVE INSTRUMENTS - Continued

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.9 million as of March 31, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next 12 months.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of $25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.2 million as of March 31, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next 12 months.

8. OTHER COMPREHENSIVE INCOME/(LOSS)

Other comprehensive income/(loss) represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows:

	Three Months Ended March 31,	
	2009	**2008**
Net income	$ 13,200	$ 16,734
Other comprehensive income/(loss):		
Unrealized loss on tax increment financing bonds	(34)	(561)
Unrealized derivative gains/(losses) on cash-flow hedges	198	(409)
Amortization of past cash flow hedges	(70)	80
Total other comprehensive income/(loss)	94	(890)
Total comprehensive income	$ 13,294	$ 15,844

15

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. FAIR VALUE MEASUREMENTS

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, mezzanine noncontrolling interests 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 comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership are comprised of Common Units in the Operating Partnership not owned by the Company. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

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 liabilities are interest rate swaps whose fair value is determined using a pricing model based upon observable market inputs.

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 asset is our tax increment financing bond issued by a municipal authority in connection with our construction of a public parking facility that 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. These available for-sale securities are 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 as of March 31, 2009 was $2.7 million below the outstanding principal due on the bonds. We have the ability and intent to hold this bond until it recovers in value.

Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is determined using an estimate of discounted cash flows dependent on future leasing assumptions for the property.

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. FAIR VALUE MEASUREMENTS - Continued

The following tables set forth the assets and liabilities as of March 31, 2009 that we measured at fair value on a recurring basis by level within the fair value hierarchy.

		Fair Value Measurements Using		
	Balance at March 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) **(1)**	$ 4,799	$ 4,799	$	$
Tax increment financing bond (in prepaid expenses and other assets)	17,434			17,434
Total Assets	$ 22,233	$ 4,799	$	$ 17,434
Noncontrolling Interests in the Operating Partnership	$ 87,119	$ 87,119	$	$
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,179	$	$ 1,179	$
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	5,368	5,368		
SF-Harborview Plaza, LP financing obligation	16,934			16,934
Total Liabilities	$ 23,481	$ 5,368	$ 1,179	$ 16,934

(1) The marketable securities are held through our officer deferred compensation plans.

Fair Value Measurements Using

	Significant Unobservable Inputs (Level 3)
Asset:	
Tax Increment Financing Bond	
Beginning balance as of December 31, 2008	$ 17,468
Unrealized loss (in AOCL)	(34)
Ending balance as of March 31, 2009	$ 17,434
Liability:	
SF-Harborview Plaza, LP Financing Obligation	
Beginning balance as of December 31, 2008	$ 16,604
Payments on financing obligation	(110)
Interest expense on financing obligation	440
Ending balance as of March 31, 2009	$ 16,934

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

10. DISCONTINUED OPERATIONS

As part of our business strategy, we will from time to time selectively dispose of non-core properties in order to use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. 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 0.7 million square feet of office and industrial properties and 13 rental residential units sold during 2008 and the three months ended March 31, 2009. 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:

	Three Months Ended March 31,	
	2009	2008
Rental and other revenues	$ 2	$ 1,858
Operating expenses:		
Rental property and other expenses	2	836
Depreciation and amortization		361
Total operating expenses	2	1,197
Other income		9
Income before gains on sales of discontinued operations		670
Gains on sales of discontinued operations	73	3,726
Total discontinued operations	$ 73	$ 4,396

11. EARNINGS PER SHARE

Effective January 1, 2009, we adopted FSP EITF 03-6-1, which required us to retroactively revise our weighted average common shares outstanding, basic and diluted, to include our total number of restricted common shares outstanding.

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

11. EARNINGS PER SHARE - Continued

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended March 31, 2009	2008
Earnings per common share - basic:		
Numerator:		
Income from continuing operations	$ 13,127	$ 12,338
Noncontrolling interests in the Operating Partnership	(690)	(606)
Noncontrolling interests in consolidated affiliates	(18)	(198)
Dividends on preferred stock	(1,677)	(2,838)
Income from continuing operations available for common stockholders	10,742	8,696
Income from discontinued operations	73	4,396
Noncontrolling interests in the Operating Partnership from discontinued operations	(4)	(287)
Income from discontinued operations available for common stockholders	69	4,109
Net income available for common stockholders	$ 10,811	$ 12,805
Denominator:		
Denominator for basic earnings per common share weighted average shares	63,631	57,217
Earnings per common share - basic:		
Income from continuing operations available for common stockholders	$ 0.17	$ 0.15
Income from discontinued operations available for common stockholders		0.07
Net income available for common stockholders	$ 0.17	$ 0.22
Earnings per common share - diluted:		
Numerator:		
Income from continuing operations	$ 13,127	$ 12,338
Noncontrolling interests in consolidated affiliates	(18)	(198)
Dividends on preferred stock	(1,677)	(2,838)
Income from continuing operations available for common stockholders	11,432	9,302
Income from discontinued operations	73	4,396
Net income available for common stockholders	$ 11,505	$ 13,698
Denominator:		
Denominator for basic earnings per common share weighted average shares	63,631	57,217
Add:		
Employee and director stock options and warrants	7	232
Noncontrolling Common Units	4,067	3,967
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversions (1)	67,705	61,416

Earnings per common share - diluted:		
Income from continuing operations available for common stockholders	$ 0.17	$ 0.15
Income from discontinued operations available for common stockholders		0.07
Net income available for common stockholders	$ 0.17	$ 0.22

(1) Options and warrants aggregating 1.4 and 0.4 million shares were outstanding during the three months ended March 31, 2009 and 2008, respectively, but were not included in the treasury method calculation for diluted earnings per common share because the exercise prices of the options and warrants were higher than the average market price of Common Stock during these periods.

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. SEGMENT INFORMATION

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. 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 included herein. All operations are within the United States and, as of March 31, 2009, no tenant of the Wholly Owned Properties comprised more than 7.4% of our consolidated revenues.

The following table summarizes the rental income and net operating income for each reportable segment:

	Three Months Ended March 31, 2009	2008
Rental and Other Revenues: (1) (2) (3)		
Office:		
Atlanta, GA	$ 11,503	$ 11,557
Greenville, SC	3,639	3,262
Kansas City, MO	3,748	3,684
Memphis, TN	7,034	6,134
Nashville, TN	15,407	14,777
Orlando, FL	2,951	2,407
Piedmont Triad, NC	6,545	6,624
Raleigh, NC	18,354	18,527
Richmond, VA	11,714	11,593
Tampa, FL	16,545	15,830
Total Office Segment	97,440	94,395
Industrial:		
Atlanta, GA	3,941	4,087
Piedmont Triad, NC	4,377	3,708
Total Industrial Segment	8,318	7,795
Retail:		
Kansas City, MO	9,742	10,795

Piedmont Triad, NC	143	140
Raleigh, NC	30	
Total Retail Segment	9,915	10,935
Residential:		
Kansas City, MO	293	303
Total Residential Segment	293	303
Total Rental and Other Revenues	$ 115,966	$ 113,428

20

Table of Contents

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. SEGMENT INFORMATION - Continued

	Three Months Ended March 31, 2009	2008
Net Operating Income: (1) (2) (3)		
Office:		
Atlanta, GA	$ 6,975	$ 7,509
Greenville, SC	2,284	2,050
Kansas City, MO	2,244	2,138
Memphis, TN	4,017	3,526
Nashville, TN	9,838	9,922
Orlando, FL	1,571	1,427
Piedmont Triad, NC	4,168	4,311
Raleigh, NC	12,211	12,828
Richmond, VA	7,993	8,089
Tampa, FL	9,875	9,502
Other	(2)	(21)
Total Office Segment	61,174	61,281
Industrial:		
Atlanta, GA	3,058	3,183
Piedmont Triad, NC	3,550	2,927
Total Industrial Segment	6,608	6,110
Retail:		
Atlanta, GA	(6)	(5)
Kansas City, MO	6,120	7,194
Piedmont Triad, NC	110	114
Raleigh, NC	2	(23)
Total Retail Segment	6,226	7,280
Residential:		
Kansas City, MO	170	194
Raleigh, NC	(9)	(11)
Total Residential Segment	161	183
Total Net Operating Income	74,169	74,854
Reconciliation to income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates:		
Depreciation and amortization	(33,424)	(30,748)
General and administrative expense	(8,315)	(9,711)
Interest expense	(21,976)	(24,841)
Interest and other income	1,007	795
Income before disposition of property and condominiums and equity in earnings of	$ 11,461	$ 10,349

unconsolidated affiliates

(1) Net of discontinued operations.
(2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.
(3) The Raleigh market encompasses the Raleigh, Durham, Cary and Research Triangle metropolitan area.

[This page is intentionally left blank]

Table of Contents

HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	$ 354,629	$ 352,872
Buildings and tenant improvements	2,831,001	2,819,844
Development in process	70,808	61,938
Land held for development	98,946	98,946
	3,355,384	3,333,600
Less-accumulated depreciation	(734,944)	(714,224)
Net real estate assets	2,620,440	2,619,376
For-sale residential condominiums	21,423	24,284
Real estate and other assets, net, held for sale	1,242	1,242
Cash and cash equivalents	7,733	13,649
Restricted cash	2,781	2,258
Accounts receivable, net of allowance of $2,104 and $1,281, respectively	16,748	23,687
Notes receivable, net of allowance of $400 and $459, respectively	3,447	3,602
Accrued straight-line rents receivable, net of allowance of $2,274 and $2,082, respectively	81,513	79,979
Investment in unconsolidated affiliates	66,438	66,517
Deferred financing and leasing costs, net of accumulated amortization of $54,554 and $52,586, respectively	71,607	73,216
Prepaid expenses and other assets	35,967	37,046
Total Assets	$ 2,929,339	$ 2,944,856
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	$ 1,619,276	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	121,284	135,606
Financing obligations	34,509	34,174
Total Liabilities	1,775,069	1,774,465
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 4,067,163 outstanding at both March 31, 2009 and December 31, 2008	87,119	111,278
Series A Preferred Units (liquidation preference $1,000 per unit), 29,092 shares issued and outstanding at both March 31, 2009 and December 31, 2008	29,092	29,092
Series B Preferred Units (liquidation preference $25 per unit), 2,100,000 shares issued and outstanding at both March 31, 2009 and December 31, 2008	52,500	52,500
Total Redeemable Operating Partnership Units	168,711	192,870
Equity:		
Common Units:		
General partner Common Units, 674,209 and 672,301 outstanding at March 31, 2009 and December 31, 2008, respectively	9,837	9,759
Limited partner Common Units, 62,679,557 and 62,490,596 outstanding at March 31, 2009 and December 31, 2008, respectively	974,230	966,378
Accumulated other comprehensive loss	(4,698)	(4,792)
Noncontrolling interests in consolidated affiliates	6,190	6,176
Total Equity	985,559	977,521
Total Liabilities, Redeemable Operating Partnership Units and Equity	$ 2,929,339	$ 2,944,856

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and in thousands, except per unit amounts)

	Three Months Ended March 31,	
	2009	**2008**
Rental and other revenues	$ 115,966	$ 113,428
Operating expenses:		
Rental property and other expenses	41,641	38,424
Depreciation and amortization	33,424	30,748
General and administrative	8,471	9,858
Total operating expenses	83,536	79,030
Interest expense:	2015	

(Dollars in thousands)

Gross written premiums

$
28,525

$
28,675

$
35,062

$
37,260

Ceded premiums

(1,158
)

(1,167
)

(2,335
)

(2,602
)

Net written premiums

$
27,367

$
27,508

$
32,727

$
34,658

Net earned premiums

$
13,767

$
14,098

$
27,492

$
27,361

Net loss and loss adjustment expenses

8,817

9,392

16,731

17,880

Underwriting expenses

4,118

4,448

8,784

8,884

Underwriting income

$

832

$
258

$
1,977

$
597

Loss ratio

64.0
%

66.6
%

60.9
%

65.3
%
Expense ratio

29.9

31.6

31.9

32.5

Combined ratio

93.9
%

98.2
%

92.8
%

97.8
%

Gross written premiums at American Southern decreased $0.2 million, or 0.5%, during the three month period ended June 30, 2016, and $2.2 million, or 5.9%, during the six month period ended June 30, 2016, from the comparable periods in 2015. The decrease in gross written premiums for the three month and six month periods ended June 30, 2016 was primarily attributable to a decrease in automobile physical damage written premiums resulting from both the cancellation of an agency in the fourth quarter of 2015 and a decrease in business writings from existing agencies. During the three month and six month periods ended June 30, 2016, automobile physical damage written premiums decreased $1.1 million and $2.7 million, respectively, from the comparable periods in 2015. Also contributing to the decrease in gross written premiums was a decrease in property and surety business totaling $1.0 million in the three month period ended June 30, 2016 and $1.3 million in the six month period ended June 30, 2016. Partially offsetting the decrease in gross written premiums for the three month and six month periods ended June 30, 2016 was an increase of $2.0 million in the automobile liability line of business during the second quarter of 2016 due primarily to premium rate increases.

Ceded premiums decreased slightly during the three month period ended June 30, 2016, and $0.3 million, or 10.3%, during the six month period ended June 30, 2016, from the comparable periods in 2015. American Southern's ceded premiums are generally determined as a percentage of earned premiums and generally increase or decrease as earned premiums increase or decrease. However, the change in ceded premiums for the six month period ended June 30, 2016 was disproportionate to the increase in earned premiums due to the cancellation of a separate reinsurance agreement to specifically reinsure the automobile liability business in one of the company's state insurance contracts.

The following presents American Southern's net earned premiums by line of business for the three month and six month periods ended June 30, 2016 and the comparable periods in 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Automobile liability	$7,356	$6,850	$14,158	$12,575
Automobile physical damage	2,493	3,214	5,164	6,889
General liability	757	790	1,527	1,557
Surety	2,302	2,212	4,790	4,312
Other lines	859	1,032	1,853	2,028
Total	$13,767	$14,098	$27,492	$27,361

Table of Contents

Net earned premiums decreased $0.3 million, or 2.3%, during the three month period ended June 30, 2016 from the three month period ended June 30, 2015, and increased $0.1 million, or 0.5%, during the six month period ended June 30, 2016, over the comparable period in 2015. The decrease in net earned premiums for the three month period ended June 30, 2016 was primarily attributable to the decrease in automobile physical damage earned premiums due to an agency cancellation and decreased business writings discussed previously. The increase in net earned premiums for the six month period ended June 30, 2016 was primarily due to increases in automobile liability and surety earned premiums from existing programs. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Net loss and loss adjustment expenses at American Southern decreased $0.6 million, or 6.1%, during the three month period ended June 30, 2016, and $1.1 million, or 6.4%, during the six month period ended June 30, 2016, from the comparable periods in 2015. As a percentage of earned premiums, net loss and loss adjustment expenses were 64.0% in the three month period ended June 30, 2016, compared to 66.6% in the three month period ended June 30, 2015. For the six month period ended June 30, 2016, this ratio decreased to 60.9% from 65.3% in the comparable period of 2015. The decrease in the loss ratio for the three month and six month periods ended June 30, 2016 was primarily attributable to more favorable loss experience in the automobile liability and general liability lines of business. Also contributing to the decrease in the loss ratio for the six month period ended June 30, 2016 was a $0.5 million loss recovery in the surety line of business.

Underwriting expenses decreased $0.3 million, or 7.4%, during the three month period ended June 30, 2016, and $0.1 million, or 1.1%, during the six month period ended June 30, 2016, from the comparable periods in 2015. As a percentage of earned premiums, underwriting expenses were 29.9% in the three month period ended June 30, 2016, compared to 31.6% in the three month period ended June 30, 2015. For the six month period ended June 30, 2016, this ratio decreased to 31.9% from 32.5% in the comparable period of 2015. The decrease in the expense ratio for the three month and six month periods ended June 30, 2016 was primarily attributable to American Southern's variable commission structure, which compensates the company's agents in relation to the loss ratios of the business they write. Normally during periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. However, during the three month and six month periods ended June 30, 2016, these commissions at American Southern decreased $0.5 million and $0.3 million, respectively, from the comparable periods in 2015 due primarily to the cancellation of an agency in the fourth quarter of 2015 that participated in the variable commission program as well as another participating agency that had unfavorable loss experience in the first six months of 2016.

Table of Contents

Bankers Fidelity

The following summarizes Bankers Fidelity's earned premiums, losses, expenses and underwriting ratios for the three month and six month periods ended June 30, 2016 and the comparable periods in 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Medicare supplement	$21,326	$20,033	$42,230	$40,402
Other health products	1,415	1,174	2,784	2,372
Life insurance	2,614	2,799	5,074	5,355
Total earned premiums	25,355	24,006	50,088	48,129
Insurance benefits and losses	18,105	16,991	35,016	33,744
Underwriting expenses	8,829	7,929	17,759	16,056
Total expenses	26,934	24,920	52,775	49,800
Underwriting loss	$(1,579)	$(914)	$(2,687)	$(1,671)
Loss ratio	71.4 %	70.8 %	69.9 %	70.1 %
Expense ratio	34.8	33.0	35.5	33.4
Combined ratio	106.2 %	103.8 %	105.4 %	103.5 %

Premium revenue at Bankers Fidelity increased $1.3 million, or 5.6%, during the three month period ended June 30, 2016, and $2.0 million, or 4.1%, during the six month period ended June 30, 2016, over the comparable periods in 2015. Premiums from the Medicare supplement line of business increased $1.3 million, or 6.5%, during the three month period ended June 30, 2016, and $1.8 million, or 4.5%, during the six month period ended June 30, 2016, due primarily to new business generated from both new and existing producers. Other health product premiums increased $0.2 million and $0.4 million, respectively, during the same comparable periods, primarily as a result of new sales of the company's group health products. Premiums from the life insurance line of business decreased $0.2 million, or 6.6%, during the three month period ended June 30, 2016, and $0.3 million, or 5.2%, during the six month period ended June 30, 2016 from the comparable 2015 periods due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity.

Benefits and losses increased $1.1 million, or 6.6%, during the three month period ended June 30, 2016, and $1.3 million, or 3.8%, during the six month period ended June 30, 2016, over the comparable periods in 2015. As a percentage of earned premiums, benefits and losses were 71.4% in the three month period ended June 30, 2016, compared to 70.8% in the three month period ended June 30, 2015. For the six month period ended June 30, 2016, this ratio decreased to 69.9% from 70.1% in the comparable period of 2015. The increase in the loss ratio for the three month period ended June 30, 2016 was primarily attributable to less favorable loss experience in the Medicare supplement line of business. The slight decrease in the loss ratio for the six month period ended June 30, 2016 was primarily attributable to more favorable loss experience in the other health and life insurance lines of business.

Underwriting expenses increased $0.9 million, or 11.4%, during the three month period ended June 30, 2016, and $1.7 million, or 10.6%, during the six month period ended June 30, 2016, over the comparable periods in 2015. As a percentage of earned premiums, underwriting expenses were 34.8% in the three month period ended June 30, 2016, compared to 33.0% in the three month period ended June 30, 2015. For the six month period ended June 30, 2016, this ratio increased to 35.5% from 33.4% in the comparable period of 2015. The increase in the expense ratio for the three month and six month periods ended June 30, 2016 was primarily due to increases in compensation expenses including higher utilization of temporary staffing as well as an increase in agency related expenses.

INVESTMENT INCOME AND REALIZED GAINS

Investment income increased $0.1 million, or 2.8%, during the three month period ended June 30, 2016 over the three month period ended June 30, 2015, and decreased slightly during the six month period ended June 30, 2016, from the comparable period in 2015. The increase in investment income for the three month period ended June 30, 2016 was primarily due to a higher average balance of fixed maturities held by the Company in the second quarter of 2016 as compared to the same period in 2015. The slight decrease in investment income for the six month period ended June 30, 2016 was primarily attributable to a decrease in the average yield on the Company's investments in fixed maturities.

Table of Contents

The Company had net realized investment gains of $0.1 million during the three month period ended June 30, 2016, compared to net realized investment gains of $4.1 million in the three month period ended June 30, 2015. The Company had net realized investment gains of $0.9 million during the six month period ended June 30, 2016, compared to net realized investment gains of $5.1 million in the six month period ended June 30, 2015. The net realized investment gains in the three month period ended June 30, 2016 resulted from the disposition of several of the Company's investments in fixed maturities. The net realized investment gain in the six month period ended June 30, 2016 was primarily due to a $0.6 million gain from the sale of property held within one of the Company's real estate partnership investments. The net realized investment gains in the three month and six month periods ended June 30, 2015 were primarily attributable to a $3.2 million gain from the sale of property held within two of the Company's real estate partnership investments as well as gains from the sale of a number of the Company's investments in fixed maturities. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments.

INTEREST EXPENSE

Interest expense increased slightly during the three month period ended June 30, 2016, and $0.1 million, or 7.8%, during the six month period ended June 30, 2016, over the comparable periods in 2015. The increase in interest expense for the three month and six month periods ended June 30, 2016 was due to an increase in the London Interbank Offered Rate ("LIBOR"), as the interest rates on the Company's outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") are directly related to LIBOR.

OTHER EXPENSES

Other expenses (commissions, underwriting expenses, and other expenses) increased $0.3 million, or 2.5%, during the three month period ended June 30, 2016, and $1.2 million, or 4.1%, during the six month period ended June 30, 2016, over the comparable periods in 2015. The increase in other expenses for the three month and six month periods ended June 30, 2016 was primarily attributable to an increase in commission and underwriting costs in the life and health operations associated with increased premiums. Partially offsetting the increase in other expenses for the three month and six month periods ended June 30, 2016 was a decrease in commission accruals at American Southern discussed previously. During the three month and six month periods ended June 30, 2016, these commissions at American Southern decreased $0.5 million and $0.3 million, respectively, from the comparable periods in 2015. Additionally, during the six month period ended June 30, 2016, legal and consulting fees decreased $0.6 million from the six month period ended June 30, 2015. On a consolidated basis, as a percentage of earned premiums, other expenses were 36.3% in both of the three month periods ended June 30, 2016 and June 30, 2015. For the six month period ended June 30, 2016, this ratio increased slightly to 37.8% from 37.3% in the comparable period of 2015. The increase in the expense ratio for the six month period ended June 30, 2016 was primarily due to the increase in underwriting expenses in the life and health operations.

INCOME TAXES

The primary difference between the effective tax rate and the federal statutory income tax rate for the three month and six month periods ended June 30, 2016 resulted from the dividends-received deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and six month periods ended June 30, 2015 resulted from the DRD and the small life insurance company deduction ("SLD"). The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income ("LICTI"). The SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICTI for such taxable year as it exceeds $3.0 million and is ultimately phased out at $15.0 million.

-25-

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At June 30, 2016, the Parent had approximately $20.3 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported statutory net income of $3.4 million for the six month period ended June 30, 2016 compared to statutory net income of $5.6 million for the six month period ended June 30, 2015. Statutory results are impacted by the recognition of all costs of acquiring business. In periods in which the Company's first year premiums increase, statutory results are generally lower than results determined under GAAP. Statutory results for the Company's property and casualty operations may differ from the Company's results of operations under GAAP due to the deferral of acquisition costs for financial reporting purposes. The Company's life and health operations' statutory results may differ from GAAP results primarily due to the deferral of acquisition costs for financial reporting purposes, as well as the use of different reserving methods.

Over 90% of the invested assets of the Parent's insurance subsidiaries are invested in marketable securities that can be converted into cash, if required; however, the use of such assets by the Company is limited by state insurance regulations. Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At June 30, 2016 American Southern had $39.9 million of statutory surplus and Bankers Fidelity had $34.2 million of statutory surplus. In 2016, dividend payments by the Parent's insurance subsidiaries in excess of $6.1 million would require prior approval. Through June 30, 2016, the Parent received dividends of $2.8 million from its subsidiaries.

The Parent provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries include reimbursements for various shared services and other expenses incurred directly on behalf of the subsidiaries by the Parent. In addition, there is in place a formal tax-sharing agreement between the Parent and its insurance subsidiaries. As a result of the Parent's tax loss, it is anticipated that the tax-sharing agreement will continue to provide the Parent with additional funds from profitable subsidiaries to assist in meeting its cash flow obligations.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding $18.0 million and $15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At June 30, 2016, the effective interest rate was 4.71%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated

Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

Table of Contents

At June 30, 2016, the Company had 55,000 shares of Series D preferred stock (“Series D Preferred Stock”) outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company’s controlling shareholder. The outstanding shares of Series D Preferred Stock have a stated value of $100 per share; accrue annual dividends at a rate of $7.25 per share (payable in cash or shares of the Company’s common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company’s common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company’s option. The Series D Preferred Stock is not currently convertible. At June 30, 2016, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.2 million.

Cash and cash equivalents decreased from $15.6 million at December 31, 2015 to $14.0 million at June 30, 2016. The decrease in cash and cash equivalents during the six month period ended June 30, 2016 was primarily attributable to net cash used in operating activities of $8.0 million, additions to property and equipment of $0.3 million, dividends paid on the Company’s common stock of $0.4 million and the purchase of shares for treasury for $0.5 million. Partially offsetting the decrease in cash and cash equivalents was a $7.5 million increase resulting from the sale and maturity of securities exceeding investment purchases.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

Table of Contents

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management’s control objectives. The Company’s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or 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. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and may not be detected. An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains and references certain information that constitutes forward-looking statements as that term is defined in the federal securities laws. Those statements, to the extent they are not historical facts, should be considered forward-looking statements, and are subject to various risks and uncertainties. Such forward-looking statements are made based upon management’s current assessments of various risks and uncertainties, as well as assumptions made in accordance with the “safe harbor” provisions of the federal securities laws. The Company’s actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, any subsequent quarterly reports on Form 10-Q and the other filings made by the Company from time to time with the Securities and Exchange Commission. In addition, other risks and uncertainties not known by us, or that we currently determine to not be material, may materially adversely affect our financial condition, results of operations or cash flows. The Company undertakes no obligation to update any forward-looking statement as a result of subsequent developments, changes in underlying assumptions or facts, or otherwise.

Table of Contents

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 6, 2014, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company's common stock (the "Repurchase Plan") on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended June 30, 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
April 1 – April 30, 2016	2,897	$ 4.75	2,897	159,740
May 1 – May 31, 2016	5,291	3.50	5,291	154,449
June 1 – June 30, 2016	13,673	3.90	13,673	140,776
Total	21,861	$ 3.91	21,861	

Item 6. Exhibits

31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema.

101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE XBRL Taxonomy Extension Presentation Linkbase.

Table of Contents

SIGNATURES

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

	ATLANTIC AMERICAN CORPORATION (Registrant)
Date: August 12, 2016	By: /s/ John G. Sample, Jr. John G. Sample, Jr. Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Title
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.