HIGHWOODS PROPERTIES INC
Form 424B3
November 13, 2007
Filed Pursuant To Rule 424(b)(3)

Registration No. 333-142178

SUPPLEMENT NO. 4

DATED NOVEMBER 9, 2007

TO THE PROSPECTUS DATED MAY 4, 2007

OF

HIGHWOODS PROPERTIES, INC.

This document supplements, and should be read in conjunction with, the prospectus of Highwoods Properties, Inc. dated May 4, 2007, as amended by the prospectus supplements dated May 10, 2007, June 25, 2007 and August 9, 2007. On November 9, 2007, we filed with the Securities and Exchange Commission our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007. This Quarterly Report (excluding the exhibits thereto) is attached as Annex A to this Supplement No. 4. Unless otherwise defined in this Supplement No. 4, capitalized terms used in this supplement have the same meanings as set forth in the prospectus.

ANNEX A

QUARTERLY REPORT ON FORM 10-Q

FOR THE

QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

3100 Smoketree Court, Suite 600, Raleigh, N.C.

(Address of principal executive office)

27604

(Zip Code)

(919) 872-4924

(Registrant s 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. Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a

non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act. Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes o No x

The Company had 57,158,461 shares of common stock outstanding as of September 30, 2007.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to (1) Highwoods Properties, Inc. as the Company, (2) Highwoods Realty Limited Partnership as the Operating Partnership, (3) the Company s common stock as Common Stock, (4) the Company s preferred stock as Preferred Stock, (5) the Operating Partnership s common partnership interests as Common Units, (6) the Operating Partnership s preferred partnership interests as Preferred Units and (7) 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 information furnished in the accompanying Consolidated Financial Statements reflects all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to Consolidated Financial Statements, Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors included herein and in our 2006 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	September 30, 2007	December 31, 2006
Assets:		
Real estate assets, at cost:		
Land	$ 353,659	$ 345,548
Buildings and tenant improvements	2,663,378	2,573,032
Development in process	134,088	101,899
Land held for development	111,384	111,517
	3,262,509	3,131,996
Less-accumulated depreciation	(638,265)	(588,307)
Net real estate assets	2,624,244	2,543,689
Real estate and other assets, net, held for sale	3,200	35,446
Cash and cash equivalents	3,468	16,690
Restricted cash	19,367	2,027
Accounts receivable, net of allowance of $1,007 and $1,253, respectively	27,263	23,347
Notes receivable, net of allowance of $133 and $786, respectively	5,430	7,871
Accrued straight-line rents receivable, net of allowance of $410 and $301, respectively	71,328	68,364
Investment in unconsolidated affiliates	57,970	60,359
Deferred financing and leasing costs, net of accumulated amortization	71,178	66,352
Prepaid expenses and other assets	23,475	20,708
Total Assets	$ 2,906,923	$ 2,844,853
Liabilities, Minority Interest and Stockholders' Equity:		
Mortgages and notes payable	$ 1,601,474	$ 1,465,129
Accounts payable, accrued expenses and other liabilities	167,716	156,737
Financing obligations	34,919	35,530
Total Liabilities	1,804,109	1,657,396
Commitments and Contingencies (see Note 11)		
Minority interest	70,716	79,726
Stockholders' Equity:		
Preferred Stock, $.01 par value, 50,000,000 authorized shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference $1,000 per share), 82,937 and 104,945 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	82,937	104,945
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 2,100,000 and 3,700,000 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	52,500	92,500
Common stock, $.01 par value, 200,000,000 authorized shares; 57,158,461 and 56,211,148 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	572	562
Additional paid-in capital	1,446,609	1,449,337
Distributions in excess of net earnings	(549,436)	(538,098)
Accumulated other comprehensive loss	(1,084)	(1,515)
Total Stockholders' Equity	1,032,098	1,107,731
Total Liabilities, Minority Interest and Stockholders' Equity	$ 2,906,923	$ 2,844,853

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Rental and other revenues	$ 110,166	$ 103,395	$ 325,384	$ 305,853
Operating expenses:				
Rental property and other expenses	39,958	38,895	117,530	111,511
Depreciation and amortization	32,517	28,168	92,275	84,000
Impairment of assets held for use	789	-	789	-
General and administrative	9,649	8,546	31,428	26,298
Total operating expenses	82,913	75,609	242,022	221,809
Interest expenses:				
Contractual	23,728	23,809	69,514	71,855
Amortization of deferred financing costs	616	557	1,791	1,883
Financing obligations	981	850	2,968	3,190
	25,325	25,216	74,273	76,928
Other income/(expense):				
Interest and other income	1,471	1,174	5,105	4,287
Loss on debt extinguishments	-	-	-	(467)
	1,471	1,174	5,105	3,820
Income before disposition of property, insurance gain, minority interest and equity in earnings of unconsolidated affiliates	3,399	3,744	14,194	10,936
Gains on disposition of property, net	1,288	2,977	20,372	8,295
Gain from property insurance settlement	-	-	4,128	-
Minority interest	(307)	(445)	(3,324)	(1,276)
Equity in earnings of unconsolidated affiliates	1,207	1,342	12,930	5,349
Income from continuing operations	5,587	7,618	48,300	23,304
Discontinued operations:				
Income/(loss) from discontinued operations, net of minority interest	205	(1,304)	981	1,386
Net gains on sales of discontinued operations, net of minority interest	6,175	2,595	24,533	4,638
Release of FASB FIN 48 tax liability	1,473	-	1,473	-
	7,853	1,291	26,987	6,024
Net income	13,440	8,909	75,287	29,328
Dividends on preferred stock	(2,680)	(4,113)	(10,639)	(12,950)
Excess of preferred stock redemption cost over carrying value	(842)	-	(2,285)	(1,803)
Net income available for common stockholders	$ 9,918	$ 4,796	$ 62,363	$ 14,575
Net income per common share - basic:				
Income from continuing operations	$ 0.04	$ 0.07	$ 0.63	$ 0.16
Income from discontinued operations	0.14	0.02	0.48	0.11
Net income	$ 0.18	$ 0.09	$ 1.11	$ 0.27
Weighted average common shares outstanding - basic	56,628	54,470	56,376	54,069
Net income per common share - diluted:				
Income from continuing operations	$ 0.04	$ 0.07	$ 0.62	$ 0.15
Income from discontinued operations	0.13	0.02	0.47	0.11
Net income	$ 0.17	$ 0.09	$ 1.09	$ 0.26
Weighted average common shares outstanding - diluted	61,396	61,457	61,611	60,786
Dividends declared per common share	$ 0.425	$ 0.425	$ 1.275	$ 1.275

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statement of Stockholders Equity

For the Nine Months Ended September 30, 2007

(Unaudited and 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	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2006	56,211,148	$ 562	$ 104,945	$ 92,500	$ 1,449,337	$ (1,515)	$ (538,098)	$ 1,107,731
Cumulative effect adjustment resulting from the adoption of FASB Interpretation No. 48	-	-	-	-	-	-	(1,424)	(1,424)
Issuance of Common Stock	679,726	7	-	-	6,709	-	-	6,716
Redemption of Common Units for Common Stock	55,836	1	-	-	2,165	-	-	2,166
Common Stock dividends	-	-	-	-	-	-	(72,277)	(72,277)
Preferred Stock dividends	-	-	-	-	-	-	(10,639)	(10,639)
Adjustment to minority interest of unitholders in the Operating Partnership	-	-	-	-	(17,451)	-	-	(17,451)
Redemption/repurchase of Preferred Stock	-	-	(22,008)	(40,000)	2,037	-	(2,285)	(62,256)
Issuance of restricted stock, net	211,751	-	-	-	-	-	-	-
Amortization of restricted stock and stock options	-	2	-	-	3,812	-	-	3,814
Other comprehensive income	-	-	-	-	-	431	-	431
Net income	-	-	-	-	-	-	75,287	75,287
Balance at September 30, 2007	57,158,461	$ 572	$ 82,937	$ 52,500	$ 1,446,609	$ (1,084)	$ (549,436)	$ 1,032,098

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Nine Months Ended September 30, 2007	2006
Operating activities:		
Net income	$ 75,287	$ 29,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92,957	87,655
Amortization of lease incentives	719	623
Amortization of restricted stock and stock options	3,814	2,933
Amortization of deferred financing costs	1,791	1,883
Amortization of accumulated other comprehensive loss	431	531
Impairments of assets held for use	789	2,600
Loss on debt extinguishments	-	467
Net gains on disposition of property	(46,835)	(13,340)
Gain from property insurance settlement	(4,128)	-
Minority interest	5,329	1,828
Equity in earnings of unconsolidated affiliates	(12,930)	(5,349)
Release of FASB FIN 48 tax liability	(1,424)	-
Change in financing obligations	302	896
Distributions of earnings from unconsolidated affiliates	5,169	5,458
Changes in operating assets and liabilities:		
Accounts receivable	(3,555)	3,800
Prepaid expenses and other assets	(4,209)	(2,832)
Accrued straight-line rents receivable	(3,367)	(6,191)
Accounts payable, accrued expenses and other liabilities	10,669	(1,115)
Net cash provided by operating activities	120,809	109,175
Investing activities:		
Additions to real estate assets and deferred leasing costs	(212,148)	(133,539)
Proceeds from disposition of real estate assets	109,639	186,894
Proceeds from property insurance settlement	4,940	-
Distributions of capital from unconsolidated affiliates	14,998	11,204
Net repayments in notes receivable	2,714	1,107
Contributions to unconsolidated affiliates	(4,716)	(100)
Cash assumed upon consolidation of unconsolidated affiliate	-	645
Changes in restricted cash and other investing activities	(13,345)	12,478
Net cash (used in)/provided by investing activities	(97,918)	78,689
Financing activities:		
Distributions paid on Common Stock and Common Units	(77,717)	(75,916)
Redemption/repurchase of Preferred Stock	(62,256)	(50,000)
Dividends paid on Preferred Stock	(10,639)	(12,950)
Distributions to minority partner in consolidated affiliate	(1,893)	(420)
Net proceeds from the sale of Common Stock	6,716	28,203
Repurchase of Common Units	(27,402)	(15,369)
Borrowings on revolving credit facility	318,800	498,500
Repayments of revolving credit facility	(509,000)	(392,500)
Borrowings on mortgages and notes payable	413,491	-
Repayments of mortgages and notes payable	(87,012)	(157,247)
Payments on financing obligations	(913)	-
Contributions from minority interest partner	5,111	-
Additions to deferred financing costs	(3,399)	(3,853)
Net cash used in financing activities	(36,113)	(181,552)
Net (decrease)/increase in cash and cash equivalents	$ (13,222)	$ 6,312
Cash and cash equivalents at beginning of the period	16,690	1,212
Cash and cash equivalents at end of the period	$ 3,468	$ 7,524

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows - Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30, 2007	2006
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of $1,676 and $1,283 for 2007 and 2006, respectively)	$ 69,220	$ 69,810

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. There were no non-cash investing and financing activities during the nine months ended September 30, 2007.

	Nine Months Ended September 30, 2007	2006
Assets:		
Net real estate assets	$ -	$ 44,512
Restricted cash	-	(1,865)
Accounts receivable	-	102
Accrued straight-line rents receivable	-	962
Investments in unconsolidated affiliates	-	(1,938)
Deferred financing and leasing costs, net	-	287
	$ -	$ 42,060
Liabilities:		
Mortgages and notes payable	$ -	$ 40,736
Accounts payable, accrued expenses and other liabilities	-	(1,652)
Financing obligation	-	1,048
	$ -	$ 40,132
Minority Interest and Stockholders Equity	$ -	$ 1,928

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(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). At September 30, 2007, the Company and/or the Operating Partnership wholly owned: 312 in-service office, industrial and retail properties; 109 rental residential units; 648 acres of undeveloped land suitable for future development, of which 523 acres are considered core holdings; and an additional 20 properties under development.

At September 30, 2007, the Company owned all of the preferred partnership interests (Preferred Units) and 93.3% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining 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. During the nine months ended September 30, 2007, the Company redeemed 618,257 Common Units for $27.4 million in cash and redeemed 55,836 Common Units for a like number of shares of Common Stock, which increased the percentage of Common Units owned by the Company from 92.2% at December 31, 2006 to 93.3% at September 30, 2007. Preferred Units in the Operating Partnership were issued to the Company in connection with the Company s Preferred Stock offerings in 1997 and 1998 (the Preferred Stock). The net proceeds raised from each of the Preferred Stock issuances were contributed by the Company to the Operating Partnership in exchange for the Preferred Units. The terms of each series of Preferred Units parallel the terms of the respective Preferred Stock as to dividends, liquidation and redemption rights.

Basis of Presentation

Our Consolidated Financial Statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Certain amounts in the December 31, 2006 Consolidated Balance Sheet have been reclassified to conform to the current presentation. As more fully described in Note 9, as required by Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144), the Consolidated Balance Sheet at December 31, 2006 was revised from previously reported amounts to reflect in real estate and other assets held for sale those properties held for sale at September 30, 2007. The Consolidated Statements of Income for the three and nine months ended September 30, 2006 were also revised from previously reported amounts to reflect in discontinued operations the operations of any property sold in the first nine months of 2007.

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 minority interest holders. In accordance with Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, 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, if any, where we are deemed to be the primary beneficiary in a variable interest entity (as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities (FIN 46(R))). All significant intercompany transactions and accounts have been eliminated.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

The accompanying unaudited financial information, in the opinion of management, contains all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. These financial statements should be read in conjunction with our 2006 Annual Report on Form 10-K.

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

Restricted Cash

Restricted cash represents cash deposits that are legally restricted or held by third parties on our behalf. They include security deposits from sales contracts on 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 un-encumber secured properties. See Note 14 for further information regarding adjustments impacting cash and restricted cash and investing cash flows as of and for the three and six month periods ended March 31 and June 30, 2007, respectively.

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 distribute to its stockholders at least 90.0% of its annual REIT taxable income, excluding capital gains. Aggregate dividends paid on Preferred Stock exceeded REIT taxable income (excluding capital gains) in 2006, which resulted in no required dividend on Common Stock in 2006 for REIT qualification purposes. Continued qualification as a REIT depends on the Company s ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests prescribed in the Code. 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 net taxable income. We record provisions for income taxes, to the extent required under SFAS No. 109, Accounting for Income Taxes (SFAS No. 109), 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. Additionally, beginning January 1, 2007, we began to recognize and measure the effects of uncertain tax positions under FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109. See Impact of Newly Adopted and Issued Accounting Standards below and Note 12 for discussion of the effect of FIN 48 on our accounting for income taxes.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Minority Interest

Minority interest in the accompanying Consolidated Financial Statements relates primarily to the ownership by various individuals and entities other than the Company of Common Units in the Operating Partnership. In addition, minority interest is also recorded for the 50.0% interest in a consolidated affiliate, Highwoods-Markel Associates, LLC (Markel), the equity interest owned by a third party in a consolidated venture formed during 2006 with Real Estate Exchange Services (REES), and the 7% equity interest owned by a third party in Plaza Residential, LLC, a consolidated joint venture formed in February 2007 related to a residential condominium project, as described below. As of September 30, 2007, minority interest in the Operating Partnership consisted of approximately 4.1 million Common Units, which had an aggregate market value of $148.8 million based on the $36.67 per share closing price of the Common Stock as of such date. Minority interest in the net income of 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 after deducting distributions on Preferred Units. The result is the amount of minority interest expense (or income) recorded for the period. In addition, when a minority unitholder redeems a Common Unit for a share of Common Stock or cash, the minority interest is reduced and the Company s share in the Operating Partnership is increased. At the end of each reporting period, the Company determines the amount that represents the minority unitholders share of the net assets (at book value) of the Operating Partnership and compares this amount to the minority interest balance that resulted from transactions during the period involving minority interest. The Company adjusts the minority interest liability to the computed share of net assets with an offsetting adjustment to the Company s paid in capital.

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 minority 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. In accordance with the disclosure provisions of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150), we estimate the value of minority interest distributions would have been approximately $16.3 million had the entity been liquidated as of September 30, 2007. This estimated settlement value is based on estimated third party consideration realizable by the entity upon a hypothetical disposition of the properties and is net of all other assets and liabilities. The actual amount of any distributions to the minority interest holder in this entity is difficult to predict due to many factors, including the inherent uncertainty of real estate sales. 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 minority interest holder.

In the first quarter of 2007, our taxable REIT subsidiary formed Plaza Residential, LLC with Dominion Partners, LLC (Dominion). Plaza Residential was formed to develop and sell 139 residential condominiums to be constructed above an office tower being developed by us in Raleigh, NC. Dominion has a 7% equity interest in the joint venture, will perform development services for the joint venture for a market development fee and guarantees 40.0% of the construction financing. Dominion will also 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 are consolidating this majority owned joint venture and intercompany transactions have been eliminated in the Consolidated Financial Statements. At September 30, 2007, binding sale contracts had been executed for all of the residential condominiums. $3.5 million of deposits related to these contracts (non-refundable unless we default in our obligation to deliver the units) had been received and are reflected in restricted cash with a corresponding amount in other liabilities. We will account for the sale of the residential condominiums in accordance with SFAS No. 66, Accounting for Sales of Real Estate

(SFAS No. 66) and will record the sales when the related closings take place, which are expected to occur in late 2008 and early 2009.

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

Following is minority interest as reflected in our Consolidated Statements of Income and Consolidated Balance Sheets:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Amount shown as minority interest in continuing operations (1)	$ (307)	$ (445)	$ (3,324)	$ (1,276)
Amount related to income from discontinued operations	(15)	123	(75)	(145)
Amount related to gains on sales of discontinued operations	(442)	(243)	(1,930)	(407)
Total minority interest in net income	$ (764)	$ (565)	$ (5,329)	$ (1,828)

(1) Minority interest related to the consolidated entities other than the Operating Partnership amounted to $0.2 million and $0.1 million for the three months ended September 30, 2007 and 2006 and $0.5 million and $0.4 million for the nine months ended September 30, 2007 and 2006.

	September 30, 2007	**December 31, 2006**
Minority interest in the Operating Partnership	$ 64,102	$ 76,848
Minority interest in Markel	3,459	2,118
Minority interest in REES	2,899	760
Minority interest in Plaza Residential	256	-
Total minority interest	$ 70,716	$ 79,726

Impact of Newly Adopted and Issued Accounting Standards

In June 2006, the FASB issued FIN 48, which we adopted as of January 1, 2007. See Note 12 for further discussion.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures concerning fair value measurements. SFAS No. 157 becomes effective for us on January 1, 2008. We are currently evaluating the impact SFAS No. 157 will have on our financial condition and results of operations.

In November 2006, the FASB ratified EITF Issue No. 06-8, Applicability of the Assessment of a Buyer s Continuing Investment under FASB Statement No. 66 for Sales of Condominiums. EITF No. 06-8 provided additional guidance on whether the seller of a condominium unit is required to evaluate the buyer s continuing investment under SFAS No. 66 in order to recognize profit from the sale under the percentage of completion method. The EITF concluded that both the buyer s initial and continuing investment must meet the criteria in SFAS No. 66 in order for condominium sale profits to be recognized under the percentage of completion method. Sales of condominiums not meeting the continuing investment test must be accounted for under the deposit method. EITF No. 06-8 is effective January 1, 2008. We do not expect that the adoption of EITF No. 06-8 will have a material impact on our financial position or results of operations.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements, to specify that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. The FSP is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP and effective for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years for arrangements that were entered into prior to the issuance of this FSP. Our adoption of this FSP as of January 1, 2007 had no impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), which permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 becomes effective for us on January 1, 2008. We are currently evaluating the impact SFAS No. 159 will have on our financial condition and results of operations.

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES

We have retained equity interests ranging from 12.5% to 50.0% in various joint ventures with unrelated investors. 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 on our consolidated balance sheet.

During the third quarter of 2006, three of our joint ventures made distributions aggregating $17.0 million as a result of a refinancing of debt related to various properties held by the joint ventures. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. The new debt is non-recourse; however, we and our partner have guaranteed other debt and have contractual obligations to support the joint ventures, which are included in the Guarantees and Other Obligations table in Note 11. Therefore, in accordance with SOP 78-9, Accounting for Investments in Real Estate Ventures, we recorded the distributions as a reduction of the investment account and included the resulting negative investment balances of $7.2 million in accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheet at September 30, 2007.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES - Continued

A number of our joint ventures are consolidated. SF-HIW Harborview Plaza, LP is accounted for as a financing arrangement pursuant to SFAS No. 66, as described in Note 3 to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K; The Vinings at University Center, LLC was consolidated pursuant to FIN 46(R) until late 2006 upon the sale of the venture s assets and distribution of our net cash assets to our partners; and Markel, REES and Plaza Residential, which are discussed in Note 1, are each consolidated.

Investments in unconsolidated affiliates as of September 30, 2007 and combined summarized income statements for our unconsolidated joint ventures for the three and nine months ended September 30, 2007 and 2006 were as follows:

Joint Venture	**Location of Properties**	**Total Rentable Square Feet (000)**		**Ownership Interest**	
Board of Trade Investment Company	Kansas City, MO	166		49.00	%
Dallas County Partners I, LP	Des Moines, IA	641		50.00	%
Dallas County Partners II, LP	Des Moines, IA	273		50.00	%
Dallas County Partners III, LP	Des Moines, IA	7		50.00	%
Fountain Three	Des Moines, IA	785		50.00	%
RRHWoods, LLC	Des Moines, IA	800	(1)	50.00	%
Kessinger/Hunter, LLC	Kansas City, MO		(2)	26.50	%
4600 Madison Associates, LLC	Kansas City, MO	262		12.50	%
Plaza Colonnade, LLC	Kansas City, MO	290		50.00	%
Highwoods DLF 98/29, LP	Atlanta, GA; Charlotte, NC; Greensboro, NC; Raleigh, NC; Orlando, FL; Baltimore, MD	1,089		22.81	%
Highwoods DLF 97/26 DLF 99/32, LP	Atlanta, GA; Greensboro, NC; Orlando, FL	822		42.93	%
Highwoods KC Glenridge Office, LP	Atlanta, GA	185		40.00	%
Highwoods KC Glenridge Land, LP	Atlanta, GA			40.00	%
HIW-KC Orlando, LLC	Orlando, FL	1,274		40.00	%
Concourse Center Associates, LLC	Greensboro, NC	118		50.00	%
Total		6,712	(3)		

(1) Includes a 31,000 square foot office building currently under development and 418 rental residential units.
(2) This joint venture provides property management, leasing and brokerage services and provides certain construction-related services to certain Wholly Owned Properties; therefore, no rentable square feet is provided.
(3) Total does not include in-service operating properties held by consolidated joint ventures totaling 618,000 square feet.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES - Continued

	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Income Statements:				
Revenues	$ 34,350	$ 35,960	$ 107,507	$ 103,762
Expenses:				
Operating expenses	15,844	15,920	46,000	44,591
Depreciation and amortization	8,196	7,338	22,977	21,328
Interest expense and loan cost amortization	8,675	8,369	25,665	25,094
Loss on debt extinguishment	-	1,448	-	1,448
Total expenses	32,715	33,075	94,642	92,461
Income before disposition of property	1,635	2,885	12,865	11,301
Gains on disposition of property	-	-	20,621	-
Net income	$ 1,635	$ 2,885	$ 33,486	$ 11,301
Our share of:				
Net income (1)	$ 1,207	$ 1,342	$ 12,930	$ 5,349
Depreciation and amortization (real estate related)	$ 3,107	$ 2,790	$ 8,851	$ 8,143
Interest expense and loan cost amortization	$ 3,617	$ 3,507	$ 10,836	$ 10,509
Loss on debt extinguishment	$ -	$ 724	$ -	$ 724
Gains on disposition of property	$ -	$ -	$ 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 related adjustments.

On September 27, 2004, we and an affiliate of Crosland, Inc. (Crosland) formed Weston Lakeside, LLC, in which we had a 50.0% ownership interest. On June 29, 2005, we contributed 22.4 acres of land at an agreed upon value of $3.9 million to this joint venture, and Crosland contributed approximately $2.0 million in cash. Immediately thereafter, the joint venture distributed approximately $1.9 million to us and we recorded a gain of $0.5 million. Crosland managed and operated this joint venture, which constructed 332 rental residential units in three buildings at a total cost of approximately $33.7 million. Crosland received 3.25% of all project costs other than land as a development fee and 3.5% of the gross revenue of the joint venture in management fees. The joint venture financed the development with a $28.4 million construction loan guaranteed by Crosland. We provided certain development services for the project and received a fee equal to 1.0% of all project costs excluding land. We accounted for this joint venture using the equity method of accounting. On February 22, 2007, the joint venture sold the 332 rental residential units to a third party for gross proceeds of $45.0 million. Mortgage debt in the amount of $27.1 million was paid off and various development related costs were paid. The joint venture recorded a gain of $11.3 million in the first quarter of 2007 related to this sale and we recorded $5.0 million as our proportionate share through equity in earnings of unconsolidated affiliates. Our share of the gain was less than 50.0% due to Crosland s preferred return as the developer. We received aggregate net distributions of $6.2 million. Weston Lakeside, LLC has been dissolved.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES - Continued

We have a 22.81% interest in a joint venture (DLF I) with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG ("DLF"). We are the property manager and leasing agent of DLF I s properties and receive customary management and leasing fees. On March 12, 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. On May 21, 2007, DLF I acquired Eola Park Centre, a 167,000 square foot office building in Orlando, Florida, for $39.3 million. In June 2007, the joint venture obtained a $27.7 million loan secured by Eola Park Centre. Simultaneously with DLF I s acquisition of Eola Park Centre, we separately acquired an adjacent parcel of development land for $2.0 million on a wholly-owned basis.

For additional information regarding our other investments in unconsolidated and other affiliates, see Note 2 to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K.

3. FINANCING ARRANGEMENTS

For information regarding sale transactions that have been accounted for as financing arrangements under paragraphs 25 through 29 of SFAS No. 66, see Note 5 herein and Note 3 to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K.

4. INVESTMENT ACTIVITIES

Dispositions

Gains, losses and impairments on disposition of properties, net, from dispositions not classified as discontinued operations, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Gains on disposition of land	$ 225	$ 2,103	$ 17,029	$ 5,143
Impairments on land	-	-	-	(74)
Gains on disposition of depreciable properties	1,063	874	3,343	3,226
Total	$ 1,288	$ 2,977	$ 20,372	$ 8,295

The above gains on land and depreciable properties include deferred gain recognition from prior sales and adjustments to prior sale transactions.

Net gains on sales of discontinued operations, net of minority interest, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gains on disposition of depreciable properties	$ 7,001	$ 2,838	$ 26,847	$ 5,045
Impairments on disposition of depreciable properties	(384)	-	(384)	-
Allocable minority interest	(442)	(243)	(1,930)	(407)
Total	$ 6,175	$ 2,595	$ 24,533	$ 4,638

See Note 9 for information on discontinued operations and impairment of long-lived assets.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. INVESTMENT ACTIVITIES - Continued

Development

We currently have under development 20 office, industrial and retail properties aggregating 2.9 million square feet and 139 for-sale residential units. The aggregate cost of these properties is currently expected to total approximately $497 million when fully leased and completed, of which $292 million was incurred as of September 30, 2007. The weighted average pre-leasing of such development projects was 75.0% at September 30, 2007. Nine of these properties aggregating 1.5 million square feet and $170 million total investment have been completed and transferred to completed real estate assets at various times prior to September 30, 2007, but had not yet reached projected 95% stabilized occupancy. The remaining development properties are still under construction and are included in Development in Process in the Consolidated Balance Sheet.

In addition to the development projects discussed above, during the nine months ended September 30, 2007, two 100% leased build-to-suit properties were completed and placed in service. The total investment of these two properties aggregated approximately $30 million.

5. MORTGAGES, NOTES PAYABLE AND FINANCING OBLIGATIONS

Our consolidated mortgages and notes payable consisted of the following at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
Secured mortgage loans	$ 669,328	$ 741,629
Unsecured loans	932,146	723,500
Total	$ 1,601,474	$ 1,465,129

As of September 30, 2007, our outstanding mortgages and notes payable were secured by real estate assets with an aggregate undepreciated book value of approximately $1.0 billion.

Our $450.0 million unsecured revolving credit facility is initially scheduled to mature on May 1, 2009. Assuming no default exists, we have an option to extend the maturity date by one additional year and, at any time prior to May 1, 2008, may request increases in the borrowing availability under the credit facility by up to an additional $50 million. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The revolving credit facility had $256.4 million of availability as of November 1, 2007.

Our revolving credit facility 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.

On March 22, 2007, the Operating Partnership sold $400 million aggregate principal amount of 5.85% Notes due March 15, 2017, net of original issue discount of $1.2 million. We used the net proceeds from the sale of the notes to repay borrowings outstanding under an unsecured non-revolving credit facility that was obtained on January 31, 2007 (which was subsequently terminated) and under the revolving credit facility.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. MORTGAGES, NOTES PAYABLE AND FINANCING OBLIGATIONS - Continued

On June 5, 2007, two three-year secured construction loans totaling $24.7 million with interest at 175 basis points over LIBOR were obtained by REES, a consolidated joint venture (see Note 1). Subsequently, on July 17, 2007, REES obtained an additional $13.7 million, three-year secured construction loan with interest at 165 basis points over LIBOR. At September 30, 2007, $11.9 million had been borrowed under these three loans and is included in mortgages and notes payable.

Financing Obligations

Our financing obligations consisted of the following at September 30, 2007 and December 31, 2006:

	September 30, 2007	**December 31, 2006**
SF-HIW Harborview, LP financing obligation (1)	$ 16,430	$ 16,157
Tax increment financing obligation (2)	17,395	18,308
Capitalized ground lease obligation (3)	1,094	1,065
Total	$ 34,919	$ 35,530

(1) See Note 3 to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K for further discussion of this financing obligation.

(2) In connection with tax increment financing for construction of a public garage related to an office building constructed by us in 2000, we are obligated to pay fixed special assessments over a 20-year period. 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 shown as a financing obligation in the Consolidated Balance Sheet. We also 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.

(3) Represents a capitalized lease obligation to the lessor of land on which we are constructing a new 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 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 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. EMPLOYEE BENEFIT PLANS

Compensation Programs

During the nine months ended September 30, 2007 and 2006, we recognized approximately $3.9 million and $2.9 million, respectively, of stock-based compensation expense. As of September 30, 2007, there was $12.1 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.1 years.

For additional information regarding our compensation programs, see Note 6 to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K.

Deferred Compensation

We have a deferred compensation plan pursuant to which each executive officer and director can elect to defer a portion of their base salary and/or annual non-equity incentive payment (or director fees) for investment in various unrelated mutual funds, which aggregated $6.9 million at September 30, 2007 and are included in prepaid expenses and other assets. 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 (recorded in prepaid expenses and other assets). Accordingly, changes in the value of the marketable mutual fund investments are recorded in 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. Prior to January 1, 2006, executive officers and directors also could elect to defer cash compensation for investment in units of phantom stock, which are not recorded as assets in our financial statements. At the end of each calendar quarter, any executive officer and director who deferred compensation into phantom stock was credited with units of phantom stock at a 15.0% discount. Dividends on the phantom units are assumed to be issued in additional units of phantom stock at a 15.0% discount. If an officer that deferred compensation under this plan leaves our employ voluntarily or for cause within two years after the end of the year in which such officer deferred compensation for units of phantom stock, at a minimum, the 15.0% discount and any deemed dividends are forfeited. Over the two-year vesting period, we record additional compensation expense equal to the 15.0% discount, the accrued dividends and any changes in the market value of Common Stock from the date of the deferral. For the nine months ended September 30, 2007, the effect of the reduction in the trading value of Common Stock as reflected on the NYSE offset the expense related to the discount and accrued dividends, resulting in no net expense for us. These expenses aggregated $1.2 million for the nine months ended September 30, 2006. Cash payments from the plan for the nine months ended September 30, 2007 and 2006 were $0.3 million and $0.4 million, respectively. Transfers made from the phantom stock investment to other investments in the deferred compensation plan for the nine months ended September 30, 2007 were $1.5 million. At September 30, 2007, the total liability for deferred compensation aggregated $8.9 million and is recorded in accounts payable, accrued expenses and other liabilities.

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 salary). During the nine months ended September 30, 2007 and 2006, we contributed $1.0 million and $0.9 million, respectively, to the 401(k) savings plan. Administrative expenses of the plan are paid by us.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. EMPLOYEE BENEFIT PLANS - Continued

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan for all active employees under which employees can elect to 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, are 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. The Operating Partnership issues one Common Unit to us in exchange for the price paid for each share of Common Stock. In the nine months ended September 30, 2007, we issued 15,711 shares of Common Stock under the Employee Stock Purchase Plan. The discount on newly issued shares is expensed by us as additional compensation and aggregated $0.09 million in the nine months ended September 30, 2007.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Accumulated Other Comprehensive Loss (AOCL) at September 30, 2007 and December 31, 2006 was $1.1 million and $1.5 million, respectively, and consisted of deferred gains and losses from past cash flow hedging instruments which are being recognized as interest expense over the terms of the related debt (see Note 8). We expect that the portion of the cumulative loss recorded in AOCL at September 30, 2007 associated with these derivative instruments, which will be recognized as interest expense within the next 12 months, will be approximately $0.3 million.

8. OTHER COMPREHENSIVE INCOME

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Net income	$ 13,440	$ 8,909	$ 75,287	$ 29,328
Other comprehensive income:				
Amortization of hedging gains and losses included in other comprehensive income	146	177	431	531
Total other comprehensive income	146	177	431	531
Total comprehensive income	$ 13,586	$ 9,086	$ 75,718	$ 29,859

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. DISCONTINUED OPERATIONS AND THE IMPAIRMENT OF LONG-LIVED ASSETS

As part of our business strategy, we 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 3.8 million square feet of office and industrial properties and 173 rental residential units sold during 2006 and the nine months ended September 30, 2007. These long-lived assets relate to disposal activities that were initiated subsequent to the effective date of SFAS No. 144, or that met certain stipulations prescribed by SFAS No. 144. 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Rental and other revenues	$ 699	$ 4,454	$ 2,951	$ 13,307
Operating expenses:				
Rental property and other expenses	334	1,838	1,225	5,031
Depreciation and amortization	147	1,109	682	3,655
Impairment of assets held for use	-	2,600	-	2,600
General and administrative	-	75	-	75
Total operating expenses	481	5,622	1,907	11,361
Interest expense	-	277	-	482
Other income	2	18	12	67
Income/(loss) before minority interest in the Operating Partnership and gains on sales of discontinued operations	220	(1,427)	1,056	1,531
Minority interest in discontinued operations	(15)	123	(75)	(145)
Income/(loss) from discontinued operations, net of minority interest in the Operating Partnership	205	(1,304)	981	1,386
Net gains on sales of discontinued operations	6,617	2,838	26,463	5,045
Minority interest in discontinued operations	(442)	(243)	(1,930)	(407)
Net gains on sales of discontinued operations, net of minority interest in the Operating Partnership	6,175	2,595	24,533	4,638
Net income from discontinued operations before release of FASB FIN 48 tax liability	6,380	1,291	25,514	6,024
Release of FASB FIN 48 tax liability	1,473	-	1,473	-
Total discontinued operations	$ 7,853	$ 1,291	$ 26,987	$ 6,024

The net book value of properties classified as discontinued operations that were sold during 2006 and the nine months ended September 30, 2007 aggregate $255.5 million.

SFAS No. 144 also requires that a long-lived asset classified as held for sale be measured at the lower of the carrying value or fair value less cost to sell. During the nine months ended September 30, 2007, we recorded an impairment loss of $0.4 million related to one property sold. During the nine months ended September 30, 2006, there were no properties held for sale which had a carrying value that was greater than fair value less cost to sell; therefore, no impairment loss was recognized in the Consolidated Statements of Income for the nine months ended September 30, 2006.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. DISCONTINUED OPERATIONS AND THE IMPAIRMENT OF LONG-LIVED ASSETS - Continued

SFAS No. 144 also requires that if indicators of impairment exist, the carrying value of a long-lived asset classified as held for use be compared to the sum of its estimated undiscounted future cash flows. If the carrying value is greater than the sum of its undiscounted future cash flows, an impairment loss should be recognized for the excess of the carrying amount of the asset over its estimated fair value. For the nine months ended September 30, 2007 and 2006, a land parcel and a property, respectively, had indicators of impairment where the carrying value exceeded the sum of estimated undiscounted future cash flows. Therefore, impairment losses of \$0.8 million and \$2.6 million were recorded in the nine months ended September 30, 2007 and 2006, respectively.

The following table includes the major classes of assets and liabilities of the properties classified as held for sale as of September 30, 2007 and December 31, 2006:

	September 30, 2007	**December 31, 2006**
Land	$ -	$ 3,462
Land held for development	3,153	15,454
Buildings and tenant improvements	-	21,949
Accumulated depreciation	-	(6,829)
Net real estate assets	3,153	34,036
Deferred leasing costs, net	-	435
Accrued straight line rents receivable	-	727
Prepaid expenses and other	47	248
Total assets	$ 3,200	$ 35,446
Tenant security deposits, deferred rents and accrued costs **(1)**	$ 107	$ 525

(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)

10. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Basic income per share:				
Numerator:				