

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 June 30, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from [] to []



HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

001-13100
(Commission File Number)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction of incorporation or organization)

000-21731
(Commission File Number)

56-1869557
(I.R.S. Employer Identification Number)

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

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value, of Highwoods Properties, Inc.	HIW	New York Stock Exchange

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 No **Highwoods Realty Limited Partnership** Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

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

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

Highwoods Properties, Inc.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Highwoods Properties, Inc. **Highwoods Realty Limited Partnership**

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

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

The Company had 103,724,379 shares of Common Stock outstanding as of July 16, 2019.

EXPLANATORY NOTE

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units” and the Operating Partnership’s preferred partnership interests as “Preferred Units.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

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

Certain information contained herein is presented as of July 16, 2019, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2019 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;
- Note 13 to Consolidated Financial Statements - Earnings Per Share and Per Unit;
- Item 4 - Controls and Procedures; and
- Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.

**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2019

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.
Consolidated Balance Sheets

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

	June 30, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$ 495,753	\$ 491,441
Buildings and tenant improvements	4,835,323	4,676,862
Development in-process	63,118	165,537
Land held for development	137,340	128,248
	<u>5,531,534</u>	<u>5,462,088</u>
Less-accumulated depreciation	(1,360,108)	(1,296,562)
Net real estate assets	4,171,426	4,165,526
Real estate and other assets, net, held for sale	8,839	—
Cash and cash equivalents	4,530	3,769
Restricted cash	8,977	6,374
Accounts receivable	37,703	25,952
Mortgages and notes receivable, net of allowance of \$28 and \$44, respectively	1,583	5,599
Accrued straight-line rents receivable	226,614	220,088
Investments in and advances to unconsolidated affiliates	23,584	23,585
Deferred leasing costs, net of accumulated amortization of \$152,334 and \$149,275, respectively	195,863	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$19,418 and \$18,074, respectively	63,494	28,843
Total Assets	<u>\$ 4,742,613</u>	<u>\$ 4,675,009</u>
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$ 2,161,965	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	257,338	218,922
Total Liabilities	<u>2,419,303</u>	<u>2,304,753</u>
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	112,778	105,960
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), 28,859 and 28,877 shares issued and outstanding, respectively	28,859	28,877
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,704,603 and 103,557,065 shares issued and outstanding, respectively	1,037	1,036
Additional paid-in capital	2,972,798	2,976,197
Distributions in excess of net income available for common stockholders	(821,051)	(769,303)
Accumulated other comprehensive income	6,488	9,913
Total Stockholders' Equity	<u>2,188,131</u>	<u>2,246,720</u>
Noncontrolling interests in consolidated affiliates	22,401	17,576
Total Equity	<u>2,210,532</u>	<u>2,264,296</u>
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	<u>\$ 4,742,613</u>	<u>\$ 4,675,009</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Income
(Unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Rental and other revenues	\$ 184,070	\$ 178,792	\$ 356,433	\$ 359,230
Operating expenses:				
Rental property and other expenses	60,558	59,663	121,109	119,095
Depreciation and amortization	59,460	56,694	128,664	114,262
Impairments of real estate assets	531	—	531	—
General and administrative	9,560	9,540	21,941	21,318
Total operating expenses	<u>130,109</u>	<u>125,897</u>	<u>272,245</u>	<u>254,675</u>
Interest expense	20,356	17,877	39,095	36,268
Other income/(loss)	321	462	(3,445)	917
Gains on disposition of property	6,703	16,972	6,703	16,972
Equity in earnings of unconsolidated affiliates	765	546	1,429	1,068
Net income	41,394	52,998	49,780	87,244
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,044)	(1,381)	(1,237)	(2,269)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Dividends on Preferred Stock	(622)	(623)	(1,244)	(1,246)
Net income available for common stockholders	<u>\$ 39,422</u>	<u>\$ 50,686</u>	<u>\$ 46,677</u>	<u>\$ 83,135</u>
Earnings per Common Share – basic:				
Net income available for common stockholders	\$ 0.38	\$ 0.49	\$ 0.45	\$ 0.80
Weighted average Common Shares outstanding – basic	<u>103,693</u>	<u>103,428</u>	<u>103,647</u>	<u>103,376</u>
Earnings per Common Share – diluted:				
Net income available for common stockholders	\$ 0.38	\$ 0.49	\$ 0.45	\$ 0.80
Weighted average Common Shares outstanding – diluted	<u>106,445</u>	<u>106,267</u>	<u>106,402</u>	<u>106,216</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Comprehensive income:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(646)	862	(2,550)	8,739
Amortization of cash flow hedges	(360)	(515)	(875)	(621)
Total other comprehensive income/(loss)	(1,006)	347	(3,425)	8,118
Total comprehensive income	40,388	53,345	46,355	95,362
Less-comprehensive (income) attributable to noncontrolling interests	(1,350)	(1,689)	(1,859)	(2,863)
Comprehensive income attributable to common stockholders	<u>\$ 39,038</u>	<u>\$ 51,656</u>	<u>\$ 44,496</u>	<u>\$ 92,499</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity
(Unaudited and in thousands, except share amounts)

Three Months Ended June 30, 2019

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at March 31, 2019	103,690,619	\$ 1,037	\$ 28,859	\$ 2,956,517	\$ 7,494	\$ 17,584	\$ (811,223)	\$ 2,200,268
Issuances of Common Stock, net of issuance costs and tax withholdings	9,672	—	—	397	—	—	—	397
Conversions of Common Units to Common Stock	5,000	—	—	222	—	—	—	222
Dividends on Common Stock (\$0.475 per share)	—	—	—	—	—	—	(49,250)	(49,250)
Dividends on Preferred Stock (\$21.5625 per share)	—	—	—	—	—	—	(622)	(622)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	14,722	—	—	—	14,722
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(476)	—	(476)
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	—	—	4,987	—	4,987
Share-based compensation expense, net of forfeitures	(688)	—	—	940	—	—	—	940
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(1,044)	(1,044)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	306	(306)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	41,394	41,394
Other comprehensive loss	—	—	—	—	(1,006)	—	—	(1,006)
Total comprehensive income	—	—	—	—	—	—	—	40,388
Balance at June 30, 2019	<u>103,704,603</u>	<u>\$ 1,037</u>	<u>\$ 28,859</u>	<u>\$ 2,972,798</u>	<u>\$ 6,488</u>	<u>\$ 22,401</u>	<u>\$ (821,051)</u>	<u>\$ 2,210,532</u>

Six Months Ended June 30, 2019

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2018	103,557,065	\$ 1,036	\$ 28,877	\$ 2,976,197	\$ 9,913	\$ 17,576	\$ (769,303)	\$ 2,264,296
Issuances of Common Stock, net of issuance costs and tax withholdings	(23,705)	—	—	(731)	—	—	—	(731)
Conversions of Common Units to Common Stock	8,000	—	—	353	—	—	—	353
Dividends on Common Stock (\$0.95 per share)	—	—	—	—	—	—	(98,425)	(98,425)
Dividends on Preferred Stock (\$43.125 per share)	—	—	—	—	—	—	(1,244)	(1,244)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(8,532)	—	—	—	(8,532)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(784)	—	(784)
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	—	—	4,987	—	4,987
Issuances of restricted stock	164,190	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(18)	—	—	—	—	(18)
Share-based compensation expense, net of forfeitures	(947)	1	—	5,511	—	—	—	5,512
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(1,237)	(1,237)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	622	(622)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	49,780	49,780
Other comprehensive loss	—	—	—	—	(3,425)	—	—	(3,425)
Total comprehensive income	—	—	—	—	—	—	—	46,355
Balance at June 30, 2019	<u>103,704,603</u>	<u>\$ 1,037</u>	<u>\$ 28,859</u>	<u>\$ 2,972,798</u>	<u>\$ 6,488</u>	<u>\$ 22,401</u>	<u>\$ (821,051)</u>	<u>\$ 2,210,532</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity - Continued
(Unaudited and in thousands, except share amounts)

Three Months Ended June 30, 2018

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at March 31, 2018	103,421,754	\$ 1,034	\$ 28,887	\$ 2,953,148	\$ 15,609	\$ 17,464	\$ (762,642)	\$ 2,253,500
Issuances of Common Stock, net of issuance costs and tax withholdings	33,361	—	—	1,444	—	—	—	1,444
Conversions of Common Units to Common Stock	4,000	—	—	182	—	—	—	182
Dividends on Common Stock (\$0.4625 per share)	—	—	—	—	—	—	(47,832)	(47,832)
Dividends on Preferred Stock (\$21.5625 per share)	—	—	—	—	—	—	(623)	(623)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(19,310)	—	—	—	(19,310)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(305)	—	(305)
Share-based compensation expense, net of forfeitures	—	1	—	1,172	—	—	—	1,173
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(1,381)	(1,381)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	308	(308)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	52,998	52,998
Other comprehensive income	—	—	—	—	347	—	—	347
Total comprehensive income	—	—	—	—	—	—	—	53,345
Balance at June 30, 2018	<u>103,459,115</u>	<u>\$ 1,035</u>	<u>\$ 28,887</u>	<u>\$ 2,936,636</u>	<u>\$ 15,956</u>	<u>\$ 17,467</u>	<u>\$ (759,788)</u>	<u>\$ 2,240,193</u>

Six Months Ended June 30, 2018

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2017	103,266,875	\$ 1,033	\$ 28,892	\$ 2,929,399	\$ 7,838	\$ 17,416	\$ (747,344)	\$ 2,237,234
Issuances of Common Stock, net of issuance costs and tax withholdings	(3,396)	—	—	415	—	—	—	415
Conversions of Common Units to Common Stock	23,196	—	—	1,084	—	—	—	1,084
Dividends on Common Stock (\$0.925 per share)	—	—	—	—	—	—	(95,579)	(95,579)
Dividends on Preferred Stock (\$43.125 per share)	—	—	—	—	—	—	(1,246)	(1,246)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	272	—	—	—	272
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(543)	—	(543)
Issuances of restricted stock	172,440	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(5)	—	—	—	—	(5)
Share-based compensation expense, net of forfeitures	—	2	—	5,466	—	—	—	5,468
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(2,269)	(2,269)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	594	(594)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	87,244	87,244
Other comprehensive income	—	—	—	—	8,118	—	—	8,118
Total comprehensive income	—	—	—	—	—	—	—	95,362
Balance at June 30, 2018	<u>103,459,115</u>	<u>\$ 1,035</u>	<u>\$ 28,887</u>	<u>\$ 2,936,636</u>	<u>\$ 15,956</u>	<u>\$ 17,467</u>	<u>\$ (759,788)</u>	<u>\$ 2,240,193</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2019	2018
Operating activities:		
Net income	\$ 49,780	\$ 87,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	128,664	114,262
Amortization of lease incentives and acquisition-related intangible assets and liabilities	868	(960)
Share-based compensation expense	5,512	5,468
Credit losses on operating lease receivables	8,144	192
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(118)	(225)
Amortization of debt issuance costs	1,455	1,408
Amortization of cash flow hedges	(875)	(621)
Amortization of mortgages and notes payable fair value adjustments	787	694
Impairments of real estate assets	531	—
Losses on debt extinguishment	375	—
Net gains on disposition of property	(6,703)	(16,972)
Equity in earnings of unconsolidated affiliates	(1,429)	(1,068)
Distributions of earnings from unconsolidated affiliates	669	1,706
Settlement of cash flow hedges	(5,144)	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(5,507)	4,469
Prepaid expenses and other assets	(3,305)	(5,232)
Accrued straight-line rents receivable	(14,273)	(12,707)
Accounts payable, accrued expenses and other liabilities	9,771	(916)
Net cash provided by operating activities	<u>173,289</u>	<u>183,958</u>
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(12,795)	(50,649)
Investments in development in-process	(50,884)	(85,717)
Investments in tenant improvements and deferred leasing costs	(78,449)	(61,990)
Investments in building improvements	(24,113)	(34,652)
Net proceeds from disposition of real estate assets	31,510	33,453
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	147	758
Changes in other investing activities	(4,272)	(3,147)
Net cash used in investing activities	<u>(138,827)</u>	<u>(201,839)</u>
Financing activities:		
Dividends on Common Stock	(98,425)	(95,579)
Redemptions/repurchases of Preferred Stock	(18)	(5)
Dividends on Preferred Stock	(1,244)	(1,246)
Distributions to noncontrolling interests in the Operating Partnership	(2,598)	(2,599)
Distributions to noncontrolling interests in consolidated affiliates	(784)	(543)
Proceeds from the issuance of Common Stock	1,049	2,052
Costs paid for the issuance of Common Stock	—	(28)
Repurchase of shares related to tax withholdings	(1,780)	(1,609)
Borrowings on revolving credit facility	169,400	257,400
Repayments of revolving credit facility	(215,400)	(360,400)
Borrowings on mortgages and notes payable	349,010	345,863
Repayments of mortgages and notes payable	(225,929)	(200,892)
Changes in debt issuance costs and other financing activities	(4,379)	(2,948)
Net cash used in financing activities	<u>(31,098)</u>	<u>(60,534)</u>
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>\$ 3,364</u>	<u>\$ (78,415)</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows – Continued
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$ 3,364	\$ (78,415)
Cash and cash equivalents and restricted cash at beginning of the period	10,143	88,333
Cash and cash equivalents and restricted cash at end of the period	<u>\$ 13,507</u>	<u>\$ 9,918</u>

Reconciliation of cash and cash equivalents and restricted cash:

	Six Months Ended June 30,	
	2019	2018
Cash and cash equivalents at end of the period	\$ 4,530	\$ 4,232
Restricted cash at end of the period	8,977	5,686
Cash and cash equivalents and restricted cash at end of the period	<u>\$ 13,507</u>	<u>\$ 9,918</u>

Supplemental disclosure of cash flow information:

	Six Months Ended June 30,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$ 33,378	\$ 33,273

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$ (2,550)	\$ 8,739
Conversions of Common Units to Common Stock	353	1,084
Changes in accrued capital expenditures	2,027	(10,574)
Write-off of fully depreciated real estate assets	36,188	48,011
Write-off of fully amortized leasing costs	19,900	19,717
Write-off of fully amortized debt issuance costs	828	2,705
Adjustment of noncontrolling interests in the Operating Partnership to fair value	8,532	(272)
Contributions from noncontrolling interests in consolidated affiliates	4,987	—
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Balance Sheets
(Unaudited and in thousands, except unit and per unit data)

	June 30, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$ 495,753	\$ 491,441
Buildings and tenant improvements	4,835,323	4,676,862
Development in-process	63,118	165,537
Land held for development	137,340	128,248
	<u>5,531,534</u>	<u>5,462,088</u>
Less-accumulated depreciation	(1,360,108)	(1,296,562)
Net real estate assets	4,171,426	4,165,526
Real estate and other assets, net, held for sale	8,839	—
Cash and cash equivalents	4,530	3,769
Restricted cash	8,977	6,374
Accounts receivable	37,703	25,952
Mortgages and notes receivable, net of allowance of \$28 and \$44, respectively	1,583	5,599
Accrued straight-line rents receivable	226,614	220,088
Investments in and advances to unconsolidated affiliates	23,584	23,585
Deferred leasing costs, net of accumulated amortization of \$152,334 and \$149,275, respectively	195,863	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$19,418 and \$18,074, respectively	63,494	28,843
Total Assets	<u>\$ 4,742,613</u>	<u>\$ 4,675,009</u>
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	\$ 2,161,965	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	257,338	218,922
Total Liabilities	<u>2,419,303</u>	<u>2,304,753</u>
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,730,703 and 2,738,703 outstanding, respectively	112,778	105,960
Series A Preferred Units (liquidation preference \$1,000 per unit), 28,859 and 28,877 units issued and outstanding, respectively	28,859	28,877
Total Redeemable Operating Partnership Units	<u>141,637</u>	<u>134,837</u>
Capital:		
Common Units:		
General partner Common Units, 1,060,265 and 1,058,870 outstanding, respectively	21,528	22,078
Limited partner Common Units, 102,235,529 and 102,089,386 outstanding, respectively	2,131,256	2,185,852
Accumulated other comprehensive income	6,488	9,913
Noncontrolling interests in consolidated affiliates	22,401	17,576
Total Capital	<u>2,181,673</u>	<u>2,235,419</u>
Total Liabilities, Redeemable Operating Partnership Units and Capital	<u>\$ 4,742,613</u>	<u>\$ 4,675,009</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Income
(Unaudited and in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Rental and other revenues	\$ 184,070	\$ 178,792	\$ 356,433	\$ 359,230
Operating expenses:				
Rental property and other expenses	60,558	59,663	121,109	119,095
Depreciation and amortization	59,460	56,694	128,664	114,262
Impairments of real estate assets	531	—	531	—
General and administrative	9,560	9,540	21,941	21,318
Total operating expenses	<u>130,109</u>	<u>125,897</u>	<u>272,245</u>	<u>254,675</u>
Interest expense	20,356	17,877	39,095	36,268
Other income/(loss)	321	462	(3,445)	917
Gains on disposition of property	6,703	16,972	6,703	16,972
Equity in earnings of unconsolidated affiliates	765	546	1,429	1,068
Net income	41,394	52,998	49,780	87,244
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Distributions on Preferred Units	(622)	(623)	(1,244)	(1,246)
Net income available for common unitholders	<u>\$ 40,466</u>	<u>\$ 52,067</u>	<u>\$ 47,914</u>	<u>\$ 85,404</u>
Earnings per Common Unit – basic:				
Net income available for common unitholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.81</u>
Weighted average Common Units outstanding – basic	<u>106,017</u>	<u>105,826</u>	<u>105,973</u>	<u>105,778</u>
Earnings per Common Unit – diluted:				
Net income available for common unitholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.81</u>
Weighted average Common Units outstanding – diluted	<u>106,036</u>	<u>105,858</u>	<u>105,993</u>	<u>105,807</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Comprehensive income:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(646)	862	(2,550)	8,739
Amortization of cash flow hedges	(360)	(515)	(875)	(621)
Total other comprehensive income/(loss)	(1,006)	347	(3,425)	8,118
Total comprehensive income	40,388	53,345	46,355	95,362
Less-comprehensive (income) attributable to noncontrolling interests	(306)	(308)	(622)	(594)
Comprehensive income attributable to common unitholders	<u>\$ 40,082</u>	<u>\$ 53,037</u>	<u>\$ 45,733</u>	<u>\$ 94,768</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Capital
(Unaudited and in thousands)

	Three Months Ended June 30, 2019				
	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at March 31, 2019	\$ 21,463	\$ 2,124,868	\$ 7,494	\$ 17,584	\$ 2,171,409
Issuances of Common Units, net of issuance costs and tax withholdings	4	393	—	—	397
Distributions on Common Units (\$0.475 per unit)	(503)	(49,850)	—	—	(50,353)
Distributions on Preferred Units (\$21.5625 per unit)	(6)	(616)	—	—	(622)
Share-based compensation expense, net of forfeitures	9	931	—	—	940
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(476)	(476)
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	4,987	4,987
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	150	14,853	—	—	15,003
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3)	(303)	—	306	—
Comprehensive income:		—			
Net income	414	40,980	—	—	41,394
Other comprehensive loss	—	—	(1,006)	—	(1,006)
Total comprehensive income					40,388
Balance at June 30, 2019	\$ 21,528	\$ 2,131,256	\$ 6,488	\$ 22,401	\$ 2,181,673

	Six Months Ended June 30, 2019				
	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2018	\$ 22,078	\$ 2,185,852	\$ 9,913	\$ 17,576	\$ 2,235,419
Issuances of Common Units, net of issuance costs and tax withholdings	(7)	(724)	—	—	(731)
Distributions on Common Units (\$0.95 per unit)	(1,006)	(99,628)	—	—	(100,634)
Distributions on Preferred Units (\$43.125 per unit)	(12)	(1,232)	—	—	(1,244)
Share-based compensation expense, net of forfeitures	55	5,457	—	—	5,512
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(784)	(784)
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	4,987	4,987
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(72)	(7,135)	—	—	(7,207)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(616)	—	622	—
Comprehensive income:					
Net income	498	49,282	—	—	49,780
Other comprehensive loss	—	—	(3,425)	—	(3,425)
Total comprehensive income					46,355
Balance at June 30, 2019	\$ 21,528	\$ 2,131,256	\$ 6,488	\$ 22,401	\$ 2,181,673

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Capital - Continued
(Unaudited and in thousands)

Three Months Ended June 30, 2018

	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at March 31, 2018	\$ 21,915	\$ 2,169,625	\$ 15,609	\$ 17,464	\$ 2,224,613
Issuances of Common Units, net of issuance costs and tax withholdings	14	1,430	—	—	1,444
Distributions on Common Units (\$0.4625 per unit)	(490)	(48,452)	—	—	(48,942)
Distributions on Preferred Units (\$21.5625 per unit)	(6)	(617)	—	—	(623)
Share-based compensation expense, net of forfeitures	12	1,161	—	—	1,173
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(305)	(305)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(194)	(19,205)	—	—	(19,399)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3)	(305)	—	308	—
Comprehensive income:					
Net income	530	52,468	—	—	52,998
Other comprehensive income	—	—	347	—	347
Total comprehensive income					53,345
Balance at June 30, 2018	<u>\$ 21,778</u>	<u>\$ 2,156,105</u>	<u>\$ 15,956</u>	<u>\$ 17,467</u>	<u>\$ 2,211,306</u>

Six Months Ended June 30, 2018

	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2017	\$ 21,830	\$ 2,161,258	\$ 7,838	\$ 17,416	\$ 2,208,342
Issuances of Common Units, net of issuance costs and tax withholdings	4	411	—	—	415
Distributions on Common Units (\$0.925 per unit)	(978)	(96,822)	—	—	(97,800)
Distributions on Preferred Units (\$43.125 per unit)	(12)	(1,234)	—	—	(1,246)
Share-based compensation expense, net of forfeitures	55	5,413	—	—	5,468
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(543)	(543)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	13	1,295	—	—	1,308
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(588)	—	594	—
Comprehensive income:					
Net income	872	86,372	—	—	87,244
Other comprehensive income	—	—	8,118	—	8,118
Total comprehensive income					95,362
Balance at June 30, 2018	<u>\$ 21,778</u>	<u>\$ 2,156,105</u>	<u>\$ 15,956</u>	<u>\$ 17,467</u>	<u>\$ 2,211,306</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2019	2018
Operating activities:		
Net income	\$ 49,780	\$ 87,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	128,664	114,262
Amortization of lease incentives and acquisition-related intangible assets and liabilities	868	(960)
Share-based compensation expense	5,512	5,468
Credit losses on operating lease receivables	8,144	192
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(118)	(225)
Amortization of debt issuance costs	1,455	1,408
Amortization of cash flow hedges	(875)	(621)
Amortization of mortgages and notes payable fair value adjustments	787	694
Impairments of real estate assets	531	—
Losses on debt extinguishment	375	—
Net gains on disposition of property	(6,703)	(16,972)
Equity in earnings of unconsolidated affiliates	(1,429)	(1,068)
Distributions of earnings from unconsolidated affiliates	669	1,706
Settlement of cash flow hedges	(5,144)	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(5,507)	4,469
Prepaid expenses and other assets	(3,305)	(5,232)
Accrued straight-line rents receivable	(14,273)	(12,707)
Accounts payable, accrued expenses and other liabilities	9,771	(916)
Net cash provided by operating activities	<u>173,289</u>	<u>183,958</u>
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(12,795)	(50,649)
Investments in development in-process	(50,884)	(85,717)
Investments in tenant improvements and deferred leasing costs	(78,449)	(61,990)
Investments in building improvements	(24,113)	(34,652)
Net proceeds from disposition of real estate assets	31,510	33,453
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	147	758
Changes in other investing activities	(4,272)	(3,147)
Net cash used in investing activities	<u>(138,827)</u>	<u>(201,839)</u>
Financing activities:		
Distributions on Common Units	(100,634)	(97,800)
Redemptions/repurchases of Preferred Units	(18)	(5)
Distributions on Preferred Units	(1,244)	(1,246)
Distributions to noncontrolling interests in consolidated affiliates	(784)	(543)
Proceeds from the issuance of Common Units	1,049	2,052
Costs paid for the issuance of Common Units	—	(28)
Repurchase of units related to tax withholdings	(1,780)	(1,609)
Borrowings on revolving credit facility	169,400	257,400
Repayments of revolving credit facility	(215,400)	(360,400)
Borrowings on mortgages and notes payable	349,010	345,863
Repayments of mortgages and notes payable	(225,929)	(200,892)
Changes in debt issuance costs and other financing activities	(4,768)	(3,326)
Net cash used in financing activities	<u>(31,098)</u>	<u>(60,534)</u>
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>\$ 3,364</u>	<u>\$ (78,415)</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows - Continued
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$ 3,364	\$ (78,415)
Cash and cash equivalents and restricted cash at beginning of the period	10,143	88,333
Cash and cash equivalents and restricted cash at end of the period	<u>\$ 13,507</u>	<u>\$ 9,918</u>

Reconciliation of cash and cash equivalents and restricted cash:

	Six Months Ended June 30,	
	2019	2018
Cash and cash equivalents at end of the period	\$ 4,530	\$ 4,232
Restricted cash at end of the period	8,977	5,686
Cash and cash equivalents and restricted cash at end of the period	<u>\$ 13,507</u>	<u>\$ 9,918</u>

Supplemental disclosure of cash flow information:

	Six Months Ended June 30,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$ 33,378	\$ 33,273

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$ (2,550)	\$ 8,739
Changes in accrued capital expenditures	2,027	(10,574)
Write-off of fully depreciated real estate assets	36,188	48,011
Write-off of fully amortized leasing costs	19,900	19,717
Write-off of fully amortized debt issuance costs	828	2,705
Adjustment of Redeemable Common Units to fair value	6,818	(1,686)
Contributions from noncontrolling interests in consolidated affiliates	4,987	—
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(tabular dollar amounts in thousands, except per share and per unit data)
(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc. (the “Company”) is a fully integrated real estate investment trust (“REIT”) that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”). At June 30, 2019, we owned or had an interest in 31.1 million rentable square feet of in-service properties, 1.2 million rentable square feet of office properties under development and approximately 325 acres of development land.

The Company is the sole general partner of the Operating Partnership. At June 30, 2019, the Company owned all of the Preferred Units and 103.3 million, or 97.4%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.7 million Common Units. During the six months ended June 30, 2019, the Company redeemed 8,000 Common Units for a like number of shares of Common Stock.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Company’s Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership’s Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. We consolidate joint venture investments, such as interests in partnerships and limited liability companies, when we control the major operating and financial policies of the investment through majority ownership, in our capacity as a general partner or managing member or through some other contractual right. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At June 30, 2019, we have involvement with, and are the primary beneficiary in, an entity that we concluded to be a variable interest entity (see Note 3). All 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 condensed or omitted certain notes and other information from the interim Consolidated Financial Statements presented in this Quarterly Report as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2018 Annual Report on Form 10-K.

Certain amounts within the Consolidated Statements of Income for the three and six months ended June 30, 2018 were removed and/or combined to conform to the current year presentation.

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 our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years. Depreciation expense for real estate assets was \$50.1 million and \$46.9 million for the three months ended June 30, 2019 and 2018, respectively, and \$108.4 million and \$94.3 million for the six months ended June 30, 2019 and 2018, respectively.

Leases

See Note 2 for policies and related disclosures with respect to our leases as both a lessee and lessor.

Insurance

We are primarily self-insured for health care claims for participating employees. We have stop-loss coverage to limit our exposure to significant claims on a per claim and annual aggregate basis. We determine our liabilities for claims, including incurred but not reported losses, based on all relevant information, including actuarial estimates of claim liabilities. At June 30, 2019, a reserve of \$0.6 million was recorded to cover estimated reported and unreported claims.

Other Events

During the first quarter of 2019, Laser Spine Institute, which leased a 176,000 square foot building with structured parking in Tampa's Westshore submarket, suddenly ceased operations. As a result of this sudden closure, we incurred \$5.6 million of credit losses on operating lease receivables and \$2.3 million of write-offs of lease incentives (in rental and other revenues), \$4.1 million of write-offs of notes receivable (in other income/(loss)) and \$11.6 million of write-offs of tenant improvements and deferred leasing costs (in depreciation and amortization).

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item when the hedged item affects earnings. We adopted the ASU as of January 1, 2019 with no material effect on our Consolidated Financial Statements.

The FASB issued an ASU that changes certain disclosure requirements for fair value measurements. The ASU is required to be adopted in 2020 and applied prospectively. We do not expect such adoption to have a material effect on our Notes to Consolidated Financial Statements.

2. Leases

On January 1, 2019, we adopted Accounting Standards Codification Topic 842 “Leases” (“ASC 842”), which supersedes Accounting Standards Codification Topic 840 “Leases” (“ASC 840”). Information in this Note 2 with respect to our leases and lease related costs as both lessee and lessor and lease related receivables as lessor is presented under ASC 842 as of June 30, 2019 and for the three and six months ended June 30, 2019 and under ASC 840 as of and for the year ended December 31, 2018.

We adopted ASC 842 using the modified retrospective approach whereby the cumulative effect of adoption was recognized on the adoption date and prior periods were not restated. There was no net cumulative effect adjustment to retained earnings as of January 1, 2019 as a result of this adoption. ASC 842 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. We operate as both a lessor and a lessee. As a lessor, we are required under ASC 842 to account for leases using an approach that is substantially equivalent to ASC 840's guidance for operating leases and other leases such as sales-type leases and direct financing leases. In addition, ASC 842 requires lessors to capitalize and amortize only incremental direct leasing costs. As a lessee, we are required under the new standard to apply a dual approach, classifying leases, such as ground leases, as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASC 842 also requires lessees to record a right of use asset and a lease liability for all leases with a term of greater than a year regardless of their classification. We have also elected the practical expedient not to recognize right of use assets and lease liabilities for leases with a term of a year or less.

On adoption of the standard, we elected the package of practical expedients provided for in ASC 842, including:

- No reassessment of whether any expired or existing contracts were or contained leases;
- No reassessment of the lease classification for any expired or existing leases; and
- No reassessment of initial direct costs for any existing leases.

The package of practical expedients was made as a single election and was consistently applied to all existing leases as of January 1, 2019. We also elected the practical expedient provided to lessors in a subsequent amendment to ASC 842 that removed the requirement to separate lease and nonlease components, provided certain conditions were met.

Information as Lessor Under ASC 842

To generate positive cash flow, as a lessor, we lease our office properties to lessees in exchange for fixed monthly payments that cover rent, property taxes, insurance and certain cost recoveries, primarily common area maintenance (“CAM”). Office properties owned by us that are under lease are located in Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa and are leased to a wide variety of lessees across many industries. Our leases were determined to be operating leases and generally range from three to 10 years. Payments from customers for CAM are considered nonlease components that are separated from lease components and are generally accounted for in accordance with the revenue recognition standard. However, we qualified for and elected the practical expedient related to combining the components because the lease component is classified as an operating lease and the timing and pattern of transfer of CAM income, which is not the predominant component, is the same as the lease component. As such, consideration for CAM is accounted for as part of the overall consideration in the lease. Payments from customers for property taxes and insurance are considered noncomponents of the lease and therefore no consideration is allocated to them because they do not transfer a good or service to the customer. Fixed contractual payments from our leases are recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

Some of our leases are subject to annual changes in the Consumer Price Index (“CPI”). Although increases in the CPI are not estimated as part of our measurement of straight-line rental revenue, to the extent that actual CPI is greater or less than the CPI at lease commencement, the amount of straight-line rent recognized in a given year is affected accordingly.

Some of our leases have termination options and/or extension options. Termination options allow the customer to terminate the lease prior to the end of the lease term under certain circumstances. Termination options generally become effective half way

or further into the original lease term and require advance notification from the customer and payment of a termination fee that reimburses us for a portion of the remaining rent under the original lease term and the undepreciated lease inception costs such as commissions, tenant improvements and lease incentives. Termination fee income is recognized at the later of when the customer has vacated the space or the lease has expired and a fully executed lease termination agreement has been delivered, the amount of the fee is determinable and collectability of the fee is reasonably assured. Our extension options generally require a re-negotiation with the customer at market rates.

Initial direct costs, primarily commissions, related to the leasing of our office properties are included in deferred leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties and our in-house personnel for new leases or lease renewals are capitalized. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases. All other costs to negotiate or arrange a lease are expensed as incurred.

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

Lease related receivables, which include accounts receivable and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to rental and other revenues. We regularly evaluate the collectability of our lease related receivables. Our evaluation of collectability primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and reduce the related receivable balance for amounts deemed uncollectible. If our assumptions regarding the collectability of lease related receivables prove incorrect, we could experience credit losses in excess of what was recognized in rental and other revenues.

We recognized rental and other revenues related to operating lease payments of \$180.7 million and \$350.1 million, respectively, during the three and six months ended June 30, 2019, of which variable lease payments were \$16.4 million and \$31.9 million, respectively. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at June 30, 2019 for the properties that we wholly own:

July 1 through December 31, 2019	\$	312,569
2020		603,436
2021		556,132
2022		520,992
2023		461,440
2024		401,060
Thereafter		1,751,410
	\$	<u>4,607,039</u>

Information as Lessor Under ASC 840

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue, such as percentage rent, is accrued when the contingency is removed. Termination fee income is recognized at the later of when the customer has vacated the space or the lease has expired and a fully executed lease termination agreement has been delivered, the amount of the fee is determinable and collectability of the fee is reasonably assured.

Cost recovery income is determined on a calendar year and a lease-by-lease basis. The most common types of cost recovery income in our leases are CAM and real estate taxes, for which a customer typically pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of the costs incurred during a contractually specified base year. The computation of cost recovery income is complex and involves numerous judgments, including the interpretation of lease provisions. Leases are not uniform in dealing with such cost recovery income and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected. After the end of the calendar year, we compute

each customer's final cost recovery income and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and adjust the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of receivables prove incorrect, we could experience losses in excess of our allowance for doubtful accounts. The allowance and its related receivable are written-off when we have concluded there is a low probability of collection and we have discontinued collection efforts.

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

Our real estate assets are leased to customers under operating leases. The minimum rental amounts under the leases are generally subject to scheduled fixed increases. Generally, the leases also provide that we receive cost recovery income from customers for increases in certain costs above the costs incurred during a contractually specified base year.

The following table sets forth our scheduled future minimum base rents to be received from customers for leases in effect at December 31, 2018 for the properties that we wholly own:

2019	\$	618,014
2020		581,399
2021		524,381
2022		488,157
2023		428,461
Thereafter		2,068,891
	\$	<u>4,709,303</u>

Information as Lessee Under ASC 842

We have 20 properties subject to operating ground leases in Atlanta, Nashville, Orlando, Raleigh and Tampa with a weighted average remaining term of 52 years. Rental payments on these leases are adjusted periodically based on either the CPI or on a pre-determined schedule. The monthly payments on a pre-determined schedule are recognized on a straight-line basis over the terms of the respective leases. Changes in the CPI are not estimated as part of our measurement of straight-line rental expense. Upon initial adoption of ASC 842, we recognized a lease liability of \$35.3 million (in accounts payable, accrued expenses and other liabilities) and a related right of use asset of \$29.7 million (in prepaid expenses and other assets) on our Consolidated Balance Sheets equal to the present value of the minimum lease payments required under each ground lease. The difference between the recorded lease liability and right of use asset represents the accrued straight-line rent liability previously recognized under ASC 840. We used a discount rate of approximately 4.5%, which was derived from our assessment of the credit quality of the Company and adjusted to reflect secured borrowing, estimated yield curves and long-term spread adjustments over appropriate tenors. Some of our ground leases contain extension options; however, these did not impact our calculation of the right of use asset and liability as they extend beyond the useful life of the properties subject to the operating ground leases. We recognized \$0.6 million and \$1.2 million of ground lease expense during the three and six months ended June 30, 2019, respectively. Cash payments related to these leases were \$0.7 million and \$1.2 million during the three and six months ended June 30, 2019, respectively.

The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on operating ground leases at June 30, 2019 and a reconciliation of those cash flows to the operating lease liability at June 30, 2019:

July 1 through December 31, 2019	\$	1,030
2020		2,086
2021		2,127
2022		2,169
2023		2,167
2024		2,123
Thereafter		83,697
		<hr/> 95,399
Discount		(60,269)
Lease liability	\$	<hr/> <hr/> 35,130

Information as Lessee Under ASC 840

Certain of our properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the CPI or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was \$2.5 million, \$2.5 million and \$2.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table sets forth our scheduled obligations for future minimum payments on operating ground leases at December 31, 2018:

2019	\$	2,184
2020		2,223
2021		2,263
2022		2,305
2023		2,308
Thereafter		86,577
	\$	<hr/> <hr/> 97,860

3. Consolidated Variable Interest Entity

During the second quarter of 2019, we and The Bromley Companies formed a joint venture (the "Midtown One joint venture") to construct Midtown One, a 150,000 square foot, multi-customer office building located in the mixed-use Midtown Tampa project in Tampa's Westshore submarket. Midtown One has an anticipated total investment of \$71.3 million. Construction of Midtown One is projected to begin in the fourth quarter of 2019 with a scheduled completion date in the second quarter of 2021. At closing, we agreed to contribute cash of \$20.0 million (\$12.8 million of which was funded and/or placed in escrow as of June 30, 2019) in exchange for an 80.0% interest in the Midtown One joint venture and The Bromley Companies contributed land valued at \$5.0 million in exchange for the remaining 20.0% interest. We also committed to provide a \$46.3 million interest-only secured construction loan to the Midtown One joint venture that is scheduled to mature on the second anniversary of completion. The loan bears interest at LIBOR plus 250 basis points. As of June 30, 2019, no amounts under the loan have been funded.

We determined that we have a variable interest in the Midtown One joint venture primarily because the entity was designed to pass along interest rate risk, equity price risk and operation risk to us as both a debt and an equity holder and The Bromley Companies as an equity holder. The Midtown One joint venture was further determined to be a variable interest entity as it requires additional subordinated financial support in the form of a loan because the initial equity investment provided by us and The Bromley Companies is not sufficient to finance its planned investments and operations. We, as majority owner and managing member and through our control rights as set forth in the joint venture's governance documents, were determined to be the primary beneficiary as we have both the power to direct the activities that most significantly affect the entity (primarily lease rates, property operations and capital expenditures) and significant economic exposure through our equity investment and loan commitment. As such, the Midtown One joint venture was consolidated as of June 30, 2019 and for the period May 29, 2019 through June 30, 2019 and all intercompany transactions and accounts were eliminated. The following table sets forth the assets and liabilities of the Midtown One joint venture included on our Consolidated Balance Sheets:

	June 30, 2019
Land held for development	\$ 16,565
Prepaid expenses and other assets	\$ 1,537
Accounts payable, accrued expenses and other liabilities	\$ 235

The assets of the Midtown One joint venture can be used only to settle obligations of the joint venture and its creditors have no recourse to our wholly owned assets.

4. Real Estate Assets

Dispositions

During the second quarter of 2019, we sold two buildings and land for an aggregate sale price of \$32.5 million and recorded aggregate gains on disposition of property of \$6.7 million.

Impairments

During the second quarter of 2019, we recorded an impairment of real estate assets of \$0.5 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

5. Intangible Assets and Below Market Lease Liabilities

The following table sets forth total intangible assets and acquisition-related below market lease liabilities, net of accumulated amortization:

	June 30, 2019	December 31, 2018
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	\$ 348,197	\$ 344,548
Less accumulated amortization	(152,334)	(149,275)
	<u>\$ 195,863</u>	<u>\$ 195,273</u>
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$ 56,355	\$ 57,955
Less accumulated amortization	(34,124)	(32,307)
	<u>\$ 22,231</u>	<u>\$ 25,648</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$ 8,759	\$ 9,207	\$ 19,074	\$ 18,702
Amortization of lease incentives (in rental and other revenues)	\$ 460	\$ 476	\$ 3,308	\$ 905
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$ 343	\$ 429	\$ 700	\$ 877
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$ 139	\$ 139	\$ 276	\$ 276
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$ (1,763)	\$ (1,495)	\$ (3,416)	\$ (3,018)

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

	Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and Amortization)	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition- Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition- Related Intangible Assets (in Rental Property and Other Expenses)	Amortization of Acquisition- Related Below Market Lease Liabilities (in Rental and Other Revenues)
July 1 through December 31, 2019	\$ 19,120	\$ 779	\$ 560	\$ 277	\$ (2,885)
2020	34,072	1,318	957	514	(5,005)
2021	29,482	1,071	631	—	(4,204)
2022	25,090	840	462	—	(3,133)
2023	21,630	763	308	—	(2,753)
Thereafter	53,368	3,521	1,100	—	(4,251)
	<u>\$ 182,762</u>	<u>\$ 8,292</u>	<u>\$ 4,018</u>	<u>\$ 791</u>	<u>\$ (22,231)</u>
Weighted average remaining amortization periods as of June 30, 2019 (in years)	<u>7.2</u>	<u>9.1</u>	<u>6.5</u>	<u>1.5</u>	<u>5.4</u>

6. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	June 30, 2019	December 31, 2018
Secured indebtedness	\$ 96,250	\$ 97,179
Unsecured indebtedness	2,076,613	1,997,816
Less-unamortized debt issuance costs	(10,898)	(9,164)
Total mortgages and notes payable, net	\$ 2,161,965	\$ 2,085,831

At June 30, 2019, our secured mortgage loan was collateralized by real estate assets with an undepreciated book value of \$146.2 million.

Our \$600.0 million unsecured revolving credit facility is scheduled to mature in January 2022 and includes an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 100 basis points and the annual facility fee is 20 basis points. There was \$136.0 million and \$121.0 million outstanding under our revolving credit facility at June 30, 2019 and July 16, 2019, respectively. At both June 30, 2019 and July 16, 2019, we had \$0.1 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at June 30, 2019 and July 16, 2019 was \$463.9 million and \$478.9 million, respectively.

During the first quarter of 2019, we prepaid without penalty our \$225.0 million, seven-year unsecured bank term loan, which was scheduled to mature in June 2020. The interest rate on the term loan was LIBOR plus 110 basis points. We recorded \$0.4 million of loss on debt extinguishment related to this prepayment.

During the first quarter of 2019, the Operating Partnership issued \$350.0 million aggregate principal amount of 4.20% notes due April 2029, less original issuance discount of \$1.0 million. These notes were priced to yield 4.234%. Underwriting fees and other expenses were incurred that aggregated \$3.1 million; these costs were deferred and will be amortized over the term of the notes.

We are currently in compliance with financial covenants with respect to our consolidated debt.

We have considered our short-term liquidity needs and the adequacy of our estimated cash flows from operating activities and other available financing sources to meet these needs. We intend to meet these short-term liquidity requirements through a combination of the following:

- available cash and cash equivalents;
- cash flows from operating activities;
- issuance of debt securities by the Operating Partnership;
- issuance of secured debt;
- bank term loans;
- borrowings under our revolving credit facility;
- issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

7. Derivative Financial Instruments

During 2018, we entered into an aggregate of \$225.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at a weighted average of 2.86% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the \$350.0 million aggregate principal amount of 4.20% notes due April 2029 during the first quarter of 2019, we terminated the forward-starting swaps and paid cash upon settlement. The unrealized loss of \$5.1 million in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the debt.

The counterparties under our swaps are major financial institutions. The swap agreements contain a provision whereby if we default on certain of our indebtedness and which default results in repayment of such indebtedness being, or becoming capable of being, accelerated by the lender, then we could also be declared in default on our swaps.

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income/(loss) each reporting period. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our debt. During the period from July 1, 2019 through June 30, 2020, we estimate that \$1.0 million will be reclassified as a net decrease to interest expense.

The following table sets forth the gross fair value of our derivatives:

	June 30, 2019	December 31, 2018
Derivatives:		
Derivatives designated as cash flow hedges in prepaid expenses and other assets:		
Interest rate swaps	\$ —	\$ 1,146
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	\$ 86	\$ 3,581

The following table sets forth the effect of our cash flow hedges on accumulated other comprehensive income and interest expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Derivatives Designated as Cash Flow Hedges:				
Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income on derivatives:				
Interest rate swaps	\$ (646)	\$ 862	\$ (2,550)	\$ 8,739
Amount of gains reclassified out of accumulated other comprehensive income into interest expense:				
Interest rate swaps	\$ (360)	\$ (515)	\$ (875)	\$ (621)

8. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At June 30, 2019, our noncontrolling interests in consolidated affiliates relate to our joint venture partners' 50.0% interest in office properties in Richmond and 20.0% interest in an office development property in Tampa. Our joint venture partners are unrelated third parties.

Noncontrolling Interests in the Operating Partnership

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Beginning noncontrolling interests in the Operating Partnership	\$ 127,976	\$ 123,113	\$ 105,960	\$ 144,009
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(14,722)	19,310	8,532	(272)
Conversions of Common Units to Common Stock	(222)	(182)	(353)	(1,084)
Net income attributable to noncontrolling interests in the Operating Partnership	1,044	1,381	1,237	2,269
Distributions to noncontrolling interests in the Operating Partnership	(1,298)	(1,299)	(2,598)	(2,599)
Total noncontrolling interests in the Operating Partnership	<u>\$ 112,778</u>	<u>\$ 142,323</u>	<u>\$ 112,778</u>	<u>\$ 142,323</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income available for common stockholders	\$ 39,422	\$ 50,686	\$ 46,677	\$ 83,135
Increase in additional paid in capital from conversions of Common Units to Common Stock	222	182	353	1,084
Change from net income available for common stockholders and transfers from noncontrolling interests	<u>\$ 39,644</u>	<u>\$ 50,868</u>	<u>\$ 47,030</u>	<u>\$ 84,219</u>

9. Disclosure About Fair Value of Financial Instruments

The following summarizes the levels of inputs that we use to measure fair value.

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

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

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 assets include the fair value of our mortgages and notes receivable and certain interest rate swaps. Our Level 2 liabilities include the fair value of our mortgages and notes payable and remaining interest rate swaps.

The fair value of mortgages and notes receivable and mortgages and notes payable is estimated by the income approach utilizing contractual cash flows and market-based interest rates to approximate the price that would be paid in an orderly transaction between market participants. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments of interest rate swaps are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are considered in the fair values to account for potential nonperformance risk, but were concluded to not be significant inputs to the calculation for the periods presented.

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

Our Level 3 assets include any real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which are valued using the terms of definitive sales contracts or the sales comparison approach.

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured or disclosed at fair value within the fair value hierarchy.

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Fair Value at June 30, 2019:				
Assets:				
Mortgages and notes receivable, at fair value (1)	\$ 1,583	\$ —	\$ 1,583	\$ —
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	2,151	2,151	—	—
Impaired real estate assets	657	—	—	657
Total Assets	\$ 4,391	\$ 2,151	\$ 1,583	\$ 657
Noncontrolling Interests in the Operating Partnership	\$ 112,778	\$ 112,778	\$ —	\$ —
Liabilities:				
Mortgages and notes payable, net, at fair value (1)	\$ 2,210,081	\$ —	\$ 2,210,081	\$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	86	—	86	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	2,151	2,151	—	—
Total Liabilities	\$ 2,212,318	\$ 2,151	\$ 2,210,167	\$ —
Fair Value at December 31, 2018:				
Assets:				
Mortgages and notes receivable, at fair value (1)	\$ 5,599	\$ —	\$ 5,599	\$ —
Interest rate swaps (in prepaid expenses and other assets)	1,146	—	1,146	—
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	1,849	1,849	—	—
Impaired real estate assets	10,252	—	—	10,252
Total Assets	\$ 18,846	\$ 1,849	\$ 6,745	\$ 10,252
Noncontrolling Interests in the Operating Partnership	\$ 105,960	\$ 105,960	\$ —	\$ —
Liabilities:				
Mortgages and notes payable, net, at fair value (1)	\$ 2,056,248	\$ —	\$ 2,056,248	\$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	3,581	—	3,581	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	1,849	1,849	—	—
Total Liabilities	\$ 2,061,678	\$ 1,849	\$ 2,059,829	\$ —

(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at June 30, 2019 and December 31, 2018.

The impaired real estate assets that were measured in the second quarter of 2019 and the fourth quarter of 2018 at fair values of \$0.7 million and \$10.3 million, respectively, and deemed to be Level 3 assets were valued based primarily on market-based inputs and our assumptions about the use of the assets, as observable inputs were not available. In the absence of observable inputs, we estimate the fair value of real estate using unobservable local and national industry market data such as comparable sales, sales contracts and appraisals to assist us in our estimation of fair value. Significant increases or decreases in any valuation inputs in isolation would result in a significantly lower or higher fair value measurement.

10. Share-Based Payments

During the six months ended June 30, 2019, the Company granted 90,218 shares of time-based restricted stock and 73,972 shares of total return-based restricted stock with weighted average grant date fair values per share of \$46.31 and \$41.13, respectively. We recorded share-based compensation expense of \$0.9 million and \$1.2 million during the three months ended June 30, 2019 and 2018, respectively, and \$5.5 million during each of the six months ended June 30, 2019 and 2018. At June 30, 2019, there was \$6.4 million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.3 years.

11. Accumulated Other Comprehensive Income

The following table sets forth the components of accumulated other comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash flow hedges:				
Beginning balance	\$ 7,494	\$ 15,609	\$ 9,913	\$ 7,838
Unrealized gains/(losses) on cash flow hedges	(646)	862	(2,550)	8,739
Amortization of cash flow hedges (1)	(360)	(515)	(875)	(621)
Total accumulated other comprehensive income	\$ 6,488	\$ 15,956	\$ 6,488	\$ 15,956

(1) Amounts reclassified out of accumulated other comprehensive income into interest expense.

12. Real Estate and Other Assets Held For Sale

The following table sets forth the assets held for sale at June 30, 2019 and December 31, 2018, which are considered non-core:

	June 30, 2019	December 31, 2018
Assets:		
Land	\$ 2,873	\$ —
Buildings and tenant improvements	4,473	—
Land held for development	3,628	—
Less-accumulated depreciation	(2,135)	—
Real estate and other assets, net, held for sale	\$ 8,839	\$ —

13. Earnings Per Share and Per Unit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Earnings per Common Share - basic:				
Numerator:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,044)	(1,381)	(1,237)	(2,269)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Dividends on Preferred Stock	(622)	(623)	(1,244)	(1,246)
Net income available for common stockholders	<u>\$ 39,422</u>	<u>\$ 50,686</u>	<u>\$ 46,677</u>	<u>\$ 83,135</u>
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	<u>103,693</u>	<u>103,428</u>	<u>103,647</u>	<u>103,376</u>
Net income available for common stockholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.80</u>
Earnings per Common Share - diluted:				
Numerator:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Dividends on Preferred Stock	(622)	(623)	(1,244)	(1,246)
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	<u>\$ 40,466</u>	<u>\$ 52,067</u>	<u>\$ 47,914</u>	<u>\$ 85,404</u>
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	103,693	103,428	103,647	103,376
Add:				
Stock options using the treasury method	19	32	20	29
Noncontrolling interests Common Units	2,733	2,807	2,735	2,811
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)	<u>106,445</u>	<u>106,267</u>	<u>106,402</u>	<u>106,216</u>
Net income available for common stockholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.80</u>

(1) Includes all unvested restricted stock where dividends on such restricted stock are non-forfeitable.

The following table sets forth the computation of basic and diluted earnings per unit of the Operating Partnership:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Earnings per Common Unit - basic:				
Numerator:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Distributions on Preferred Units	(622)	(623)	(1,244)	(1,246)
Net income available for common unitholders	<u>\$ 40,466</u>	<u>\$ 52,067</u>	<u>\$ 47,914</u>	<u>\$ 85,404</u>
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	106,017	105,826	105,973	105,778
Net income available for common unitholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.81</u>
Earnings per Common Unit - diluted:				
Numerator:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Distributions on Preferred Units	(622)	(623)	(1,244)	(1,246)
Net income available for common unitholders	<u>\$ 40,466</u>	<u>\$ 52,067</u>	<u>\$ 47,914</u>	<u>\$ 85,404</u>
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	106,017	105,826	105,973	105,778
Add:				
Stock options using the treasury method	19	32	20	29
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	<u>106,036</u>	<u>105,858</u>	<u>105,993</u>	<u>105,807</u>
Net income available for common unitholders	<u>\$ 0.38</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>	<u>\$ 0.81</u>

(1) Includes all unvested restricted stock where distributions on such restricted stock are non-forfeitable.

14. Segment Information

The following tables summarize the rental and other revenues and net operating income, the primary industry property-level performance metric used by our chief operating decision maker and which is defined as rental and other revenues less rental property and other expenses, for each of our reportable segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Rental and Other Revenues:				
Office:				
Atlanta	\$ 37,692	\$ 34,777	\$ 73,995	\$ 70,260
Greensboro	5,606	5,378	11,087	11,404
Memphis	9,945	9,899	19,702	20,107
Nashville	33,109	30,669	64,508	61,392
Orlando	12,995	13,451	26,927	26,751
Pittsburgh	14,994	15,323	30,309	30,605
Raleigh	30,673	29,282	59,770	59,086
Richmond	12,341	10,893	24,627	21,942
Tampa	23,497	25,841	39,068	51,266
Total Office Segment	180,852	175,513	349,993	352,813
Other	3,218	3,279	6,440	6,417
Total Rental and Other Revenues	\$ 184,070	\$ 178,792	\$ 356,433	\$ 359,230
Net Operating Income:				
Office:				
Atlanta	\$ 24,819	\$ 21,608	\$ 48,242	\$ 44,278
Greensboro	3,708	3,434	7,215	7,445
Memphis	6,210	6,173	12,232	12,818
Nashville	24,208	22,427	46,526	44,410
Orlando	8,007	8,093	16,563	16,356
Pittsburgh	8,895	9,249	18,029	18,220
Raleigh	22,438	21,494	43,297	43,366
Richmond	8,610	7,659	17,162	15,240
Tampa	14,291	16,500	21,376	33,260
Total Office Segment	121,186	116,637	230,642	235,393
Other	2,326	2,492	4,682	4,742
Total Net Operating Income	123,512	119,129	235,324	240,135
Reconciliation to net income:				
Depreciation and amortization	(59,460)	(56,694)	(128,664)	(114,262)
Impairments of real estate assets	(531)	—	(531)	—
General and administrative expenses	(9,560)	(9,540)	(21,941)	(21,318)
Interest expense	(20,356)	(17,877)	(39,095)	(36,268)
Other income/(loss)	321	462	(3,445)	917
Gains on disposition of property	6,703	16,972	6,703	16,972
Equity in earnings of unconsolidated affiliates	765	546	1,429	1,068
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244

15. Subsequent Events

On July 3, 2019, we sold land parcels for an aggregate sale price of \$7.3 million and expect to record nominal aggregate losses on disposition of property.

On July 8, 2019, we sold a building for a sale price of \$4.7 million and expect to record a gain on disposition of property of \$2.6 million.

On July 12, 2019, we acquired development land in Raleigh for a purchase price, including capitalized acquisition costs, of \$6.6 million.

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

The Company is a fully integrated office real estate investment trust ("REIT") that owns, develops, acquires, leases and manages properties primarily in the best business districts (BBDs) of Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa. The Company conducts its activities through the Operating Partnership. The Operating Partnership is managed by the Company, its sole general partner. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

On July 1, 2019, we announced, among other things, that Edward J. Fritsch, 60, will retire as Chief Executive Officer and member of the Board of Directors effective September 1, 2019. Theodore J. Klinck, 53, who currently serves as President and Chief Operating Officer, will assume the role of Chief Executive Officer and director upon Mr. Fritsch's retirement. See "Part II. Item 5. Other Information."

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

Disclosure Regarding Forward-Looking Statements

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

- the financial condition of our customers could deteriorate;
- we may not be able to lease or re-lease second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity in our existing markets could result in an excessive supply relative to customer demand;
- our markets may suffer declines in economic and/or office employment growth;
- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in "Business – Risk Factors" set forth in our 2018 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

Executive Summary

Our Strategic Plan focuses on:

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

Revenues

Our operating results depend heavily on successfully leasing and operating the office space in our portfolio. Economic growth and office employment levels in our core markets are important factors, among others, in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, cost recovery income, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases prior to expiration. For more information regarding our lease expirations, see "Properties - Lease Expirations" in our 2018 Annual Report on Form 10-K. Occupancy in our office portfolio decreased from 91.6% at December 31, 2018 to 90.5% at June 30, 2019. We expect average occupancy for our office portfolio to be approximately 91% for the remainder of 2019.

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether GAAP rents under signed new and renewal leases are higher or lower than the GAAP rents under expiring leases. Annualized rental revenues from second generation leases expiring during any particular year are typically less than 15% of our total annual rental revenues. The following table sets forth information regarding second generation office leases signed during the second quarter of 2019 (we define second generation office leases as leases with new customers and renewals of existing customers in office space that has been previously occupied under our ownership and leases with respect to vacant space in acquired buildings):

	New	Renewal	All Office
Leased space (in rentable square feet)	328,989	746,761	1,075,750
Average term (in years - rentable square foot weighted)	6.7	5.0	5.5
Base rents (per rentable square foot) (1)	\$ 30.39	\$ 30.69	\$ 30.60
Rent concessions (per rentable square foot) (1)	(1.00)	(0.25)	(0.48)
GAAP rents (per rentable square foot) (1)	\$ 29.39	\$ 30.44	\$ 30.12
Tenant improvements (per rentable square foot) (1)	\$ 4.97	\$ 2.21	\$ 3.05
Leasing commissions (per rentable square foot) (1)	\$ 1.11	\$ 0.87	\$ 0.94

(1) Weighted average per rentable square foot on an annual basis over the lease term.

Annual combined GAAP rents for new and renewal leases signed in the second quarter were \$30.12 per rentable square foot, 16.8% higher compared to previous leases in the same office spaces.

We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby customers that account for more than 3% of our revenues are periodically reviewed with the Company's Board of Directors. As of June 30, 2019, no customer accounted for more than 3% of our cash revenues other than the Federal Government, which accounted for less than 5% of our cash revenues on an annualized basis. Upon completion of the MetLife III development project in Raleigh, it is expected that MetLife will account for approximately 3.4% of our revenues based on annualized cash revenues for June 2019.

Expenses

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

Net Operating Income

Whether or not we record increasing same property net operating income ("NOI") depends upon our ability to garner higher rental revenues, whether from higher average occupancy, higher GAAP rents per rentable square foot or higher cost recovery income, that exceed any corresponding growth in operating expenses. Same property NOI was \$2.6 million, or 2.3%, higher in the second quarter of 2019 as compared to 2018 due to an increase in same property revenues of \$3.4 million offset by an increase of \$0.7 million in same property expenses. We expect same property NOI to be higher in the remainder of 2019 as compared to 2018 as higher rental revenues, mostly from higher average GAAP rents per rentable square foot, are expected to more than offset lower expected average occupancy and an anticipated increase in same property operating expenses.

In addition to the effect of same property NOI, whether or not NOI increases depends upon whether the NOI from our acquired properties and development properties placed in service exceeds the NOI from property dispositions. NOI was \$4.4 million, or 3.7%, higher in the second quarter of 2019 as compared to 2018 due to the impact of development properties placed in service, partly offset by NOI lost from property dispositions and lower restoration fees. We expect NOI to be higher in the remainder of 2019 as compared to 2018 due to the impact of our net investment activity in such periods.

Cash Flows

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

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

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

For a discussion regarding dividends and distributions, see "Liquidity and Capital Resources - Dividends and Distributions."

Liquidity and Capital Resources

We intend to maintain a conservative and flexible balance sheet with access to multiple sources of debt and equity capital and sufficient availability under our revolving credit facility that allows us to capitalize on favorable development and acquisition opportunities as they arise.

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our revolving credit facility, which had \$478.9 million of availability at July 16, 2019. Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain or enhance existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities and planned financing activities, including borrowings under our revolving credit facility, will be adequate to meet our short-term liquidity requirements. We use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continued ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity, funding of building improvements, new building developments and land infrastructure projects and funding acquisitions of buildings and development land. Our expected future capital expenditures for started and/or committed new development projects were approximately \$316 million at June 30, 2019. Additionally, we may, from time to time, retire outstanding equity and/or debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

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

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

At June 30, 2019, our leverage ratio, as measured by the ratio of our mortgages and notes payable and outstanding preferred stock to the undepreciated book value of our assets, was 35.9% and there were 106.4 million diluted shares of Common Stock outstanding.

Investment Activity

As noted above, a key tenet of our strategic plan is to continuously upgrade the quality of our office portfolio through acquisitions, dispositions and development. We generally seek to acquire and develop office buildings that improve the average quality of our overall portfolio and deliver consistent and sustainable value for our stockholders over the long-term. Whether or not an asset acquisition or new development results in higher per share net income or funds from operations ("FFO") in any given period depends upon a number of factors, including whether the NOI for any such period exceeds the actual cost of capital used to finance the acquisition or development. Additionally, given the length of construction cycles, development projects are not placed in service until, in some cases, several years after commencement. Sales of non-core assets could result in lower per share net income or FFO in any given period in the event the resulting use of proceeds does not exceed the capitalization rate on the sold properties.

Results of Operations

Three Months Ended June 30, 2019 and 2018

Rental and Other Revenues

Rental and other revenues were \$5.3 million, or 3.0%, higher in the second quarter of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property revenues, which increased rental and other revenues by \$6.4 million and \$3.4 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot and higher parking income, partly offset by lower average occupancy. These increases were partly offset by lost revenue from property dispositions and lower restoration fees, which decreased rental and other revenues by \$2.8 million and \$1.9 million, respectively. We expect rental and other revenues to be higher for the remainder of 2019 as compared to 2018 due to development properties placed in service and higher same property revenues, partly offset by lost revenue from property dispositions.

Operating Expenses

Rental property and other expenses were \$0.9 million, or 1.5%, higher in the second quarter of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property operating expenses, which increased operating expenses by \$1.2 million and \$0.7 million, respectively. Same property operating expenses were higher primarily due to higher property taxes and insurance. These increases were partly offset by a \$1.1 million decrease in operating expenses from property dispositions. We expect rental property and other expenses to be higher for the remainder of 2019 as compared to 2018 due to development properties placed in service and higher same property operating expenses, partly offset by lower operating expenses from property dispositions.

Depreciation and amortization was \$2.8 million, or 4.9%, higher in the second quarter of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property lease related depreciation and amortization, partly offset by fully amortized acquisition-related intangible assets and property dispositions. We expect depreciation and amortization to be higher for the remainder of 2019 as compared to 2018 for similar reasons.

We recorded an impairment of real estate assets of \$0.5 million in the second quarter of 2019, which resulted from a change in market-based inputs and our assumptions about the use of the assets. We recorded no such impairment in 2018.

General and administrative expenses were relatively unchanged in the second quarter of 2019 as compared to 2018 due to certain previously capitalized lease related costs that are now expensed upon adoption of the new lease accounting standard in 2019 and higher company-wide base salaries and benefits offset by lower incentive compensation and lower expensed pre-development costs. We expect general and administrative expenses for the remainder of 2019 to be relatively consistent to 2018 for similar reasons.

Interest Expense

Interest expense was \$2.5 million, or 13.9%, higher in the second quarter of 2019 as compared to 2018 primarily due to higher average debt balances, higher average interest rates and lower capitalized interest. We expect interest expense to be higher for the remainder of 2019 as compared to 2018 for similar reasons.

Other Income/(Loss)

Other income/(loss) was \$0.1 million lower in the second quarter of 2019 as compared to 2018 primarily due to lower interest income.

Gains on Disposition of Property

Gains on disposition of property were \$10.3 million lower in the second quarter of 2019 as compared to 2018 due to the net effect of the disposition activity in such periods.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.2 million, or 40.1%, higher in the second quarter of 2019 as compared to 2018 primarily due to higher average occupancy. We expect equity in earnings of unconsolidated affiliates to be higher for the remainder of 2019 as compared to 2018 for the same reason.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.11 lower in the second quarter of 2019 as compared to 2018 due to a decrease in net income for the reasons discussed above.

Six Months Ended June 30, 2019 and 2018

Laser Spine Institute

In the first quarter of 2019, we provided information on Laser Spine Institute, which occupied a 176,000 square-foot, six-story building with structured parking in Tampa's Westshore submarket, a BBD. The building, developed by us, had been used by Laser Spine Institute for both its company headquarters and an ambulatory surgery center. After the market closed on March 1, 2019, Laser Spine Institute announced it would immediately discontinue its operations. This unexpected announcement affected all of its locations nationwide. As a result of this sudden closure, we incurred \$5.6 million of credit losses on operating lease receivables and write-offs of \$2.3 million of lease incentives, \$4.1 million of notes receivable and \$11.6 million of tenant improvements and deferred leasing costs.

Rental and Other Revenues

Rental and other revenues were \$2.8 million, or 0.8%, lower in the first six months of 2019 as compared to 2018 primarily due to property dispositions, lower same property revenues and lower restoration fees, which decreased rental and other revenues by \$5.3 million, \$4.1 million and \$3.8 million, respectively. Same property rental and other revenues were lower primarily due to credit losses on operating lease receivables and write-offs of lease incentives associated with the sudden closure of Laser Spine Institute, partly offset by higher average GAAP rents per rentable square foot and higher parking income. These decreases were partly offset by higher revenue of \$10.4 million from development properties placed in service.

Operating Expenses

Rental property and other expenses were \$2.0 million, or 1.7%, higher in the first six months of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property operating expenses, which increased operating expenses by \$2.1 million and \$1.5 million, respectively. Same property operating expenses were higher primarily due to higher property taxes and repairs and maintenance, partly offset by lower utilities. These increases were partly offset by a \$1.7 million decrease in operating expenses from property dispositions.

Depreciation and amortization was \$14.4 million, or 12.6%, higher in the first six months of 2019 as compared to 2018 primarily due to accelerated depreciation and amortization of tenant improvements and deferred leasing costs associated with the sudden closure of Laser Spine Institute and development properties placed in service, partly offset by property dispositions.

We recorded an impairment of real estate assets of \$0.5 million in the first six months of 2019, which resulted from a change in market-based inputs and our assumptions about the use of the assets. We recorded no such impairment in 2018.

General and administrative expenses were \$0.6 million, or 2.9%, higher in the first six months of 2019 as compared to 2018 primarily due to certain previously capitalized lease related costs that are now expensed upon adoption of the new lease accounting standard in 2019 and higher company-wide base salaries and benefits, partly offset by lower incentive compensation and expensed pre-development costs.

Interest Expense

Interest expense was \$2.8 million, or 7.8%, higher in the first six months of 2019 as compared to 2018 primarily due to higher average debt balances and higher average interest rates.

Other Income/(Loss)

Other income/(loss) was \$4.4 million lower in the first six months of 2019 as compared to 2018 primarily due to the write-off of notes receivable associated with the sudden closure of Laser Spine Institute.

Gains on Disposition of Property

Gains on disposition of property were \$10.3 million lower in the first six months of 2019 as compared to 2018 due to the net effect of the disposition activity in such periods.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.4 million, or 33.8%, higher in the first six months of 2019 as compared to 2018 primarily due to higher average occupancy.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.35 lower in the first six months of 2019 as compared to 2018 due to a decrease in net income for the reasons discussed above.

Liquidity and Capital Resources**Statements of Cash Flows**

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

	Six Months Ended June 30,		Change
	2019	2018	
Net Cash Provided By Operating Activities	\$ 173,289	\$ 183,958	\$ (10,669)
Net Cash Used In Investing Activities	(138,827)	(201,839)	63,012
Net Cash Used In Financing Activities	(31,098)	(60,534)	29,436
Total Cash Flows	\$ 3,364	\$ (78,415)	\$ 81,779

The decrease in net cash provided by operating activities in the first six months of 2019 as compared to 2018 was primarily due to lower net cash from the settlement of cash flow hedges and property dispositions, partly offset by higher net cash from the operations of development properties placed in service. We expect net cash related to operating activities for the remainder of 2019 to be higher as compared to 2018 primarily due to the impact of development properties placed in service and same properties, partly offset by property dispositions.

The decrease in net cash used in investing activities in the first six months of 2019 as compared to 2018 was primarily due to higher acquisition activity and higher investments in development in-process in 2018. We expect uses of cash for investing activities for the remainder of 2019 to be primarily driven by whether or not we acquire or commence development of additional office buildings in the BBDs of our markets. Additionally, as of June 30, 2019, we have approximately \$316 million left to fund of our previously-announced development activity in 2019 and future years. We expect these uses of cash for investing activities will be partly offset by proceeds from property dispositions for the remainder of 2019.

The decrease in net cash used in financing activities in the first six months of 2019 as compared to 2018 was primarily due to higher net debt borrowings in 2019. Assuming the net effect of our acquisition, disposition and development activity in 2019 results in an increase to our assets, we would expect outstanding debt and/or Common Stock balances to increase.

Capitalization

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

	June 30, 2019	December 31, 2018
Mortgages and notes payable, net, at recorded book value	\$ 2,161,965	\$ 2,085,831
Preferred Stock, at liquidation value	\$ 28,859	\$ 28,877
Common Stock outstanding	103,705	103,557
Common Units outstanding (not owned by the Company)	2,731	2,739
Per share stock price at period end	\$ 41.30	\$ 38.69
Market value of Common Stock and Common Units	\$ 4,395,807	\$ 4,112,592
Total capitalization	\$ 6,586,631	\$ 6,227,300

At June 30, 2019, our mortgages and notes payable and outstanding preferred stock represented 33.3% of our total capitalization and 35.9% of the undepreciated book value of our assets. See also "Executive Summary - Liquidity and Capital Resources."

Our mortgages and notes payable as of June 30, 2019 consisted of \$96.3 million of secured indebtedness with a weighted average interest rate of 4.0% and \$2,076.6 million of unsecured indebtedness with a weighted average interest rate of 3.77%. The secured indebtedness was collateralized by real estate assets with an undepreciated book value of \$146.2 million. As of June 30, 2019, \$486.0 million of our debt does not bear interest at fixed rates or is not protected by interest rate hedge contracts.

Investment Activity

In the normal course of business, we regularly evaluate potential acquisitions. As a result, from time to time, we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence, including potential acquisitions that are subject to non-binding letters of intent or enforceable contracts. Consummation of any transaction is subject to a number of contingencies, including the satisfaction of customary closing conditions. No assurances can be provided that we will acquire any properties in the future. See "Item 1A. Risk Factors - Recent and future acquisitions and development properties may fail to perform in accordance with our expectations and may require renovation and development costs exceeding our estimates" in our 2018 Annual Report on Form 10-K.

During the second quarter of 2019, we and The Bromley Companies formed a joint venture (the "Midtown One joint venture") to construct Midtown One, a 150,000 square foot, multi-customer office building located in the mixed-use Midtown Tampa project in Tampa's Westshore submarket. Midtown One has an anticipated total investment of \$71.3 million. Construction of Midtown One is projected to begin in the fourth quarter of 2019 with a scheduled completion date in the second quarter of 2021. At closing, we agreed to contribute cash of \$20.0 million (\$12.8 million of which was funded and/or placed in escrow as of June 30, 2019) in exchange for an 80.0% interest in the Midtown One joint venture and The Bromley Companies contributed land valued at \$5.0 million in exchange for the remaining 20.0% interest. We also committed to provide a \$46.3 million interest-only secured construction loan to the Midtown One joint venture that is scheduled to mature on the second anniversary of completion. The loan bears interest at LIBOR plus 250 basis points. As of June 30, 2019, no amounts under the loan have been funded. The Midtown One joint venture is consolidated.

On July 3, 2019, we sold land parcels for an aggregate sale price of \$7.3 million and expect to record nominal aggregate losses on disposition of property.

On July 8, 2019, we sold a building for a sale price of \$4.7 million and expect to record a gain on disposition of property of \$2.6 million.

On July 12, 2019, we acquired development land in Raleigh for a purchase price, including capitalized acquisition costs, of \$6.6 million.

During the second quarter of 2019, we sold two buildings and land for an aggregate sale price of \$32.5 million and recorded aggregate gains on disposition of property of \$6.7 million.

During the second quarter of 2019, we recorded an impairment of real estate assets of \$0.5 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

As of June 30, 2019, we were developing 0.8 million rentable square feet of office properties. The following table summarizes these announced and in-process office developments:

Property	Market	Rentable Square Feet	Anticipated Total Investment (1)	Investment As Of June 30, 2019 (1)	Pre Leased %	Estimated Completion	Estimated Stabilization
(\$ in thousands)							
GlenLake Seven (2)	Raleigh	125,700	\$ 40,970	\$ 8,405	44.1%	3Q20	4Q21
Midtown One (3)	Tampa	150,000	71,300	18,110	—	2Q21	4Q22
Asurion	Nashville	552,800	285,000	67,664	98.3	4Q21	1Q22
		828,500	\$ 397,270	\$ 94,179	72.3%		

- (1) Includes deferred lease commissions which are classified in deferred leasing costs on our Consolidated Balance Sheets.
- (2) Our corporate and Raleigh division personnel will occupy approximately 45,500 square feet.
- (3) We own an 80.0% interest in this consolidated joint venture. Recorded on our Consolidated Balance Sheets in land held for development and prepaid expenses and other assets, not development in-process.

Financing Activity

We have entered into separate equity distribution agreements with each of Wells Fargo Securities, LLC, Robert W. Baird & Co. Incorporated, BB&T Capital Markets, a division of BB&T Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BTIG, LLC, Capital One Securities, Inc., Fifth Third Securities, Inc., Jefferies LLC and J.P. Morgan Securities LLC. Under the terms of the equity distribution agreements, the Company may offer and sell up to \$300.0 million in aggregate gross sales price of shares of Common Stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the New York Stock Exchange ("NYSE") or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms.

Our \$600.0 million unsecured revolving credit facility is scheduled to mature in January 2022 and includes an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 100 basis points and the annual facility fee is 20 basis points. The interest rate and facility fee are based on the higher of the publicly announced ratings from Moody's Investors Service or Standard & Poor's Ratings Services. There was \$136.0 million and \$121.0 million outstanding under our revolving credit facility at June 30, 2019 and July 16, 2019, respectively. At both June 30, 2019 and July 16, 2019, we had \$0.1 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at June 30, 2019 and July 16, 2019 was \$463.9 million and \$478.9 million, respectively.

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

Our revolving credit facility and bank term loans require us to comply with customary operating covenants and various financial requirements. Upon an event of default on the revolving credit facility, the lenders having at least 51.0% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations. In addition, certain of our unsecured debt agreements contain cross-default provisions giving the unsecured lenders the right to declare a default if we are in default under more than \$30.0 million with respect to other loans in some circumstances.

The indenture that governs the Operating Partnership's outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25.0% in principal amount of any series of notes can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that

could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Dividends and Distributions

To maintain its qualification as a REIT, the Company must pay dividends to stockholders that are at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to pay such dividends. The Company's REIT taxable income, as determined by the federal tax laws, does not equal its net income under accounting principles generally accepted in the United States of America ("GAAP"). In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders.

Cash dividends and distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities, reducing debt or future growth initiatives. The amount of future distributions that will be made is at the discretion of the Company's Board of Directors. For a discussion of the factors that will affect such cash flows and, accordingly, influence the decisions of the Company's Board of Directors regarding dividends and distributions, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends and Distributions" in our 2018 Annual Report on Form 10-K.

During the second quarter of 2019, the Company declared and paid a cash dividend of \$0.475 per share of Common Stock.

Current and Future Cash Needs

We anticipate that our available cash and cash equivalents, cash flows from operating activities and other available financing sources, including the issuance of debt securities by the Operating Partnership, the issuance of secured debt, bank term loans, borrowings under our revolving credit facility, the issuance of equity securities by the Company or the Operating Partnership and the disposition of non-core assets, will be adequate to meet our short-term liquidity requirements.

We had \$4.5 million of cash and cash equivalents as of June 30, 2019. The unused capacity of our revolving credit facility at June 30, 2019 and July 16, 2019 was \$463.9 million and \$478.9 million, respectively, excluding an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments.

We have a currently effective automatic shelf registration statement on Form S-3 with the SEC pursuant to which, at any time and from time to time, in one or more offerings on an as-needed basis, the Company may sell an indefinite amount of common stock, preferred stock and depositary shares and the Operating Partnership may sell an indefinite amount of debt securities, subject to our ability to effect offerings on satisfactory terms based on prevailing market conditions.

The Company from time to time enters into equity distribution agreements with a variety of firms pursuant to which the Company may offer and sell shares of common stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms (which may include block trades).

During the remainder of 2019, we also expect to sell an additional \$62 million to \$112 million of properties no longer considered to be core assets due to location, age, quality and/or overall strategic fit. We can make no assurance, however, that we will sell any non-core assets or, if we do, what the timing or terms of any such sale will be.

Critical Accounting Estimates

There were no changes made by management to the critical accounting policies in the six months ended June 30, 2019 other than the new lease standard adoption effective January 1, 2019, which changed our policy with respect to estimating credit losses on operating lease receivables. For a description of this policy, see Note 2 to our Consolidated Financial Statements. For a description of all other critical accounting estimates, see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates” in our 2018 Annual Report on Form 10-K.

Non-GAAP Information

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

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

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

- Net income/(loss) computed in accordance with GAAP;
- Less net income attributable to noncontrolling interests in consolidated affiliates;
- Plus depreciation and amortization of depreciable operating properties;
- Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties and excluding items that are classified as extraordinary items under GAAP;
- Plus or minus our share of adjustments, including depreciation and amortization of depreciable operating properties, for unconsolidated joint venture investments (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales of depreciable operating properties, plus impairments on depreciable operating properties, and noncontrolling interests in consolidated affiliates related to discontinued operations.

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

The following table sets forth the Company's FFO, FFO available for common stockholders and FFO available for common stockholders per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Funds from operations:				
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Net (income) attributable to noncontrolling interests in consolidated affiliates	(306)	(308)	(622)	(594)
Depreciation and amortization of real estate assets	58,720	55,954	127,202	112,789
(Gains) on disposition of depreciable properties	(6,703)	(16,433)	(6,703)	(16,433)
Unconsolidated affiliates:				
Depreciation and amortization of real estate assets	622	565	1,202	1,076
Funds from operations	<u>93,727</u>	<u>92,776</u>	<u>170,859</u>	<u>184,082</u>
Dividends on Preferred Stock	(622)	(623)	(1,244)	(1,246)
Funds from operations available for common stockholders	<u>\$ 93,105</u>	<u>\$ 92,153</u>	<u>\$ 169,615</u>	<u>\$ 182,836</u>
Funds from operations available for common stockholders per share	<u>\$ 0.87</u>	<u>\$ 0.87</u>	<u>\$ 1.59</u>	<u>\$ 1.72</u>
Weighted average shares outstanding (1)	<u>106,445</u>	<u>106,267</u>	<u>106,402</u>	<u>106,216</u>

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

In addition, the Company believes NOI and same property NOI are useful supplemental measures of the Company's property operating performance because such metrics provide a performance measure of the revenues and expenses directly involved in owning real estate assets and a perspective not immediately apparent from net income or FFO. The Company defines NOI as rental and other revenues less rental property and other expenses. The Company defines cash NOI as NOI less lease termination fees, straight-line rent, amortization of lease incentives and amortization of acquired above and below market leases. Other REITs may use different methodologies to calculate NOI, same property NOI and cash NOI.

As of June 30, 2019, our same property portfolio consisted of 211 in-service properties encompassing 28.7 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2018 to June 30, 2019). As of December 31, 2018, our same property portfolio consisted of 210 in-service properties encompassing 28.1 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2017 to December 31, 2018). The change in our same property portfolio was due to the addition of three newly developed properties encompassing 0.8 million rentable square feet placed in service during 2017. These additions were offset by the removal of two properties encompassing 0.2 million rentable square feet that were sold during 2019.

Rental and other revenues related to properties not in our same property portfolio were \$11.2 million and \$9.3 million for the three months ended June 30, 2019 and 2018, respectively, and \$20.3 million and \$19.0 million for the six months ended June 30, 2019 and 2018, respectively. Rental property and other expenses related to properties not in our same property portfolio were \$2.7 million and \$2.6 million for the three months ended June 30, 2019 and 2018, respectively, and \$5.7 million and \$5.2 million for the six months ended June 30, 2019 and 2018, respectively.

The following table sets forth the Company's NOI and same property NOI (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 41,394	\$ 52,998	\$ 49,780	\$ 87,244
Equity in earnings of unconsolidated affiliates	(765)	(546)	(1,429)	(1,068)
Gains on disposition of property	(6,703)	(16,972)	(6,703)	(16,972)
Other (income)/loss	(321)	(462)	3,445	(917)
Interest expense	20,356	17,877	39,095	36,268
General and administrative expenses	9,560	9,540	21,941	21,318
Impairments of real estate assets	531	—	531	—
Depreciation and amortization	59,460	56,694	128,664	114,262
Net operating income	<u>123,512</u>	<u>119,129</u>	<u>235,324</u>	<u>240,135</u>
Non same property and other net operating income	(8,430)	(6,679)	(14,596)	(13,784)
Same property net operating income	<u>\$ 115,082</u>	<u>\$ 112,450</u>	<u>\$ 220,728</u>	<u>\$ 226,351</u>
Same property net operating income	\$ 115,082	\$ 112,450	\$ 220,728	\$ 226,351
Lease termination fees, straight-line rent and other non-cash adjustments	(5,493)	(6,176)	(3,558)	(12,603)
Same property cash net operating income	<u>\$ 109,589</u>	<u>\$ 106,274</u>	<u>\$ 217,170</u>	<u>\$ 213,748</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our market risk as of March 31, 2019, see "Quantitative and Qualitative Disclosures About Market Risk" in our Quarterly Report on Form 10-Q for the first quarter of 2019.

ITEM 4. CONTROLS AND PROCEDURES

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

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in internal control over financial reporting during the three months ended June 30, 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in internal control over financial reporting during the three months ended June 30, 2019 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II - OTHER INFORMATION

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

During the second quarter of 2019, the Company issued an aggregate of 5,000 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

ITEM 5. OTHER INFORMATION

On July 1, 2019, we announced that Edward J. Fritsch, 60, will retire as Chief Executive Officer and member of the Company's Board of Directors effective September 1, 2019. Theodore J. Klinck, 53, who currently serves as President and Chief Operating Officer, will assume the role of Chief Executive Officer and director upon Mr. Fritsch's retirement. Mr. Klinck has served as President since November 2018 and Chief Operating Officer since September 2015. Prior to that, Mr. Klinck served as the Company's Senior Vice President and Chief Investment Officer. Before joining Highwoods in March 2012, Mr. Klinck served as principal and chief investment officer with Goddard Investment Group, a privately-owned real estate investment firm. Previously, Mr. Klinck had been a managing director at Morgan Stanley Real Estate.

Effective with these changes, we also announced that Brendan C. Maiorana, 43, has been promoted to Executive Vice President of Finance and Investor Relations and Brian M. Leary, 45, will join the Company as Executive Vice President and Chief Operating Officer.

Mr. Maiorana joined us in May 2016 as Senior Vice President of Finance and Investor Relations. He will continue to report directly to Mark F. Mulhern, 59, the Company's Executive Vice President and Chief Financial Officer. Prior to joining Highwoods, Mr. Maiorana spent 11 years in Equity Research at Wells Fargo Securities, starting as an Associate Equity Research Analyst. Prior to that, he worked four years at Ernst & Young LLP as a senior auditor. He is a graduate of Rutgers University with a BS in accounting and has an MBA from the University of North Carolina Kenan-Flagler Business School.

Mr. Leary joined us on July 15, 2019 as Executive Vice President and Chief Operating Officer, reporting directly to Mr. Klinck. Previously, he served as president of the commercial and mixed-use business unit of Crescent Communities since 2014. Prior to joining Crescent, Mr. Leary held senior management positions with Jacoby Development, Inc., Atlanta Beltline, Inc., AIG Global Real Estate, Atlantic Station, LLC and Central Atlanta Progress. Mr. Leary is a graduate of the Georgia Institute of Technology's College of Architecture with a BS in architecture with minor concentrations in land development and real estate. He also holds a master's degree in City Planning from Georgia Tech.

On July 19, 2019, we entered into change in control agreements with each of Messrs. Maiorana and Leary on terms substantially similar to the change in control agreements we have in effect with our other executive officers. Mr. Leary's compensation arrangement is substantially similar to what the Company has provided to Mr. Klinck in his role as Chief Operating Officer. Information about the compensation of the Company's Chief Operating Officer is incorporated herein by reference to the Company's Proxy Statement filed in connection with its annual meeting of stockholders held on May 8, 2019.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Executive Supplemental Employment Agreement, dated as of July 19, 2019, between the Company and Brendan C. Maiorana
10.2	Executive Supplemental Employment Agreement, dated as of July 19, 2019, between the Company and Brian M. Leary
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.3	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
31.4	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
32.1	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.2	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.3	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
32.4	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

EXECUTIVE SUPPLEMENTAL EMPLOYMENT AGREEMENT

AGREEMENT by and between HIGHWOODS PROPERTIES, INC., a Maryland corporation (the “Company”), and Brendan C. Maiorana (the “Executive”), dated as of July 19, 2019.

The Board of Directors of the Company (the “Board”) has determined that it is in the best interests of the Company and its stockholders to ensure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 1) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive’s full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

SECTION 1. Certain Definitions.

(a) The “Effective Date” shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive’s employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the “Effective Date” shall mean the date immediately prior to the date of such termination of employment.

(b) The “Change of Control Period” shall mean the period commencing on the date hereof and ending on the third anniversary of such date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the “Renewal Date”), the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

(c) For purposes of this Agreement, a “Change of Control” shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (a) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change of Control: (I) any acquisition directly

from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (IV) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (I), (II) and (III) of subsection (i) of this Section 1(c) are satisfied; or

(ii) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions, as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (b) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (c) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(iv) Approval by the stockholders of the Company of (a) a complete liquidation or dissolution of the Company or (b) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (I) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (II) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or

such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (III) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

(d) “Separation from Service, “Termination of Employment,” “Terminates Employment” and similar terms mean the date that Executive separated from service within the meaning of section 409A of the Code. Generally, Executive will separate from service if the Executive dies, retires, or otherwise has a Separation from Service with the Company, determined in accordance with the following:

(i) Leaves of Absence. The employment relationship is treated as continuing intact while Executive is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months, or, if longer, so long as Executive retains a right to reemployment with the Company under an applicable statute or by contract. A leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that Executive will return to perform services for the Company. If the period of leave exceeds six (6) months and Executive does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six (6)-month period. Notwithstanding the foregoing, where a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months, where such impairment causes Executive to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a twenty-nine (29)-month period of absence shall be substituted for such six (6)-month period.

(ii) Dual Status. Generally if Executive performs services both as an employee and an independent contractor, Executive must separate from service both as an employee, and as an independent contractor pursuant to standards set forth in the Treasury Regulations, to be treated as having a Separation from Service. However, if Executive provides services to the Company as an employee and as a member of the Board, and if any plan in which such person participates as a Board member is not aggregated with this Agreement pursuant to Treasury Regulation Section 1.409A-1(c)(2)(ii), then the services provided as a director are not taken into account in determining whether Executive has a Separation from Service as an employee for purposes of this Agreement.

(iii) Separation from Service. Whether a Separation from Service has occurred is determined based on whether the facts and circumstances indicate that the Company and Executive reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services Executive would perform after such date (whether as an employee or as an independent contractor except as provided in the preceding paragraph) would permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed (whether as an employee or an independent contractor, except as provided in the preceding paragraph) over the immediately preceding thirty six (36) month period (or the full period of services to the Company if Executive has been providing services to the Company less than thirty six (36) months). For periods during which Executive is on a paid bona fide leave of absence and has not otherwise terminated employment as described above, for purposes of this paragraph Executive is treated as providing bona fide services at a level equal to the level of services that Executive would have been required to perform to receive the compensation paid with respect to such leave of absence. Periods during which Executive is on an unpaid bona fide leave of absence and has not otherwise terminated

employment are disregarded for purposes of this paragraph (including for purposes of determining the applicable thirty six (36) month (or shorter) period).

(iv) Service with Related Companies. For purposes of determining whether a Separation from Service has occurred under the above provisions, the “Company” shall include the Company and all Related Companies. “Related Company” means: (1) any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b) that includes the Company); and (ii) any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c) with the Company. For purposes of applying Code Sections 414(b) and (c), 50% is substituted for the 80% ownership level.

(e) “Related Company” means: (1) any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b) that includes the Company); and (ii) any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c) with the Company. For purposes of applying Code Sections 414(b) and (c), 50% is substituted for the 80% ownership level.

SECTION 2. Employment Period. The term of this Agreement shall commence on the Effective Date and end on the third anniversary of such date (the “Employment Period”), subject to the termination provisions in Sections 4 and 5 herein.

SECTION 3. Terms of Employment.

(a) *Position and Duties*.

(i) During the Employment Period, (A) the Executive’s position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date and (B) the Executive’s services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive’s reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive’s responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not hereafter be deemed to interfere with the performance of the Executive’s responsibilities to the Company.

(b) *Compensation*.

(i) *Base Salary*. During the Employment Period, the Executive shall receive an annual base salary (“Annual Base Salary”), which shall be paid in equal installments on a monthly basis, at least

equal to twelve times the highest monthly base salary paid or payable to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term “affiliated companies” shall include any company controlled by, controlling or under common control with the Company.

(ii) *Annual Bonus.* In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the “Annual Bonus”) in cash at least equal to the average bonus paid or payable, including by reason of any deferral, to the Executive (or, if the Executive has been employed by the Company for less than three full fiscal years, then the average bonus paid or payable to the executive officer who was employed by the Company in a similar capacity as the Executive during such three full fiscal years) by the Company and its affiliated companies in respect of the three fiscal years immediately preceding the fiscal year in which the Effective Date occurs (the “Recent Average Bonus”). Without limitation, for purposes of this Agreement, the terms “Annual Bonus” and “Recent Average Bonus” shall be deemed to include amounts earned (whether or not paid) with respect to any applicable period under any Non-Equity Incentive Plan (as such term is defined in Item 402(a)(6)(iii) of Regulation S-K promulgated under the Exchange Act and the Securities Act of 1933, as amended, including any successor thereto). Each such Annual Bonus shall be paid within 2 ½ months following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect, pursuant to a plan of nonqualified deferred compensation adopted by the Company, if any, under which the Annual Bonus may be deferred, to defer the receipt of such Annual Bonus.

(iii) *Special Bonus.* In addition to Annual Base Salary and Annual Bonus payable as hereinabove provided, if the Executive remains employed with the Company and its affiliated companies through the first anniversary of the Effective Date, the Company shall pay to the Executive a special bonus (the “Special Bonus”) in recognition of the Executive’s services during the critical one-year transition period following the Change of Control in cash equal to the sum of (A) the Executive’s Annual Base Salary and (B) the greater of (1) the Annual Bonus paid or payable, which for this purpose shall include any portion of the Annual Bonus with a deferred payment date, to the Executive for the most recently completed fiscal year during the Employment Period, if any, and (2) the Recent Average Bonus (or, if the Executive has been employed by the Company for less than three full fiscal years, then the average bonus paid or payable to the executive officer who was employed by the Company in a similar capacity as the Executive during such three full fiscal years) (such greater amount shall be hereinafter referred to as the “Highest Annual Bonus”). The Special Bonus shall be paid no later than 30 days following the first anniversary of the Effective Date.

(iv) *Incentive, Savings and Retirement Plans.* During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or if more favorable to the Executive, those

provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) *Welfare Benefit Plans.* During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(vi) *Expenses.* During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date, or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) *Fringe Benefits.* During the Employment Period, the Executive shall be entitled to fringe benefits no less favorable, in the aggregate, than the plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date, or if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) *Office and Support Staff.* During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(ix) *Vacation.* During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

SECTION 4. Termination of Employment.

(a) *Death or Disability.* The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 10(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time

performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the Executive is: (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or (2) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

(b) *Cause*. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" occurs when the Executive does any of the following:

(i) is convicted of a felony involving moral turpitude under federal, state or local law;

(ii) materially breaches the Executive's obligations under Section 3(a) (other than as a result of incapacity due to physical or mental illness) that is demonstrably willful and deliberate on the Executive's part, that is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and that is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach); and/or

(iii) is convicted of any applicable local, state or federal law or Company policy related to discrimination or harassment.

(c) *Good Reason*. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirement), authority, duties or responsibilities as contemplated by Section 3(a) or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(a) (i) (B);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 9(c), provided that such successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 9(c).

For purposes of this Section 4(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(d) *Notice of Termination.* Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b). For purposes of this Agreement, a “Notice of Termination” means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date of such notice. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder. Executive shall be required to provide notice to the Company of the existence of any condition that constitutes Good Reason within 90 days of the initial existence of the condition, and upon the receipt of such notice the Company shall have a period of 30 days during which it may remedy the condition.

(e) *Date of Termination.* “Date of Termination” means the date the Executive experiences a Separation from Service.

SECTION 5. Obligations of the Company upon Termination.

(a) *Good Reason; Other than for Cause, Death or Disability.* If, during the Employment Period, the Company shall terminate the Executive’s employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Highest Annual Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) the Special Bonus, if due to the Executive pursuant to Section 3(b)(iii), to the extent not theretofore paid, and (4) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), (3) and (4) shall be hereinafter referred to as the “Accrued Obligations”); and

(B) the amount (such amount shall be hereinafter referred to as the “Severance Amount”) equal to the product of (1) 2.99 and (2) the sum of (x) the Executive’s Annual Base Salary and (y) the Highest Annual Bonus (provided, however, that if the Special Bonus has not been paid to the Executive, such amount shall be increased by the amount of the Special Bonus); and

(C) a separate lump-sum supplemental retirement benefit (the amount of such benefit shall be hereinafter referred to as the “Supplemental Retirement Amount”) equal to the difference between (1) the lump sum actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Company’s Retirement Plan (or any successor plan thereto) (the “Retirement Plan”) during the 90-day period immediately preceding the Effective Date) of the benefit payable under the Retirement Plan and any supplemental and/or excess retirement plan of the Company and its affiliated companies providing benefits for the Executive (the “SERP”) which the Executive would receive if the Executive’s employment continued at the compensation level provided for in Sections 3(b)(i) and 3(b)(ii) for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period

immediately preceding the Effective Date, and (2) the lump sum actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Retirement Plan during the 90-day period immediately preceding the Effective Date) of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP; and

(ii) for each month during the remainder of the Employment Period, the Company shall make a cash payment equal to the excess of (x) 1.25 times one-twelfth of the annual insurance premium (or, in the case of any benefit provided on a self-insured basis, an amount equal to a market-based insurance premium for the same coverage) for the plans, programs, policies and practices described in Section 3(b)(v) other than health and dental benefits, covering the Executive and/or the Executive's family on the Date of Termination over (y) the amount that the Executive paid or contributed toward the cost of such benefits immediately before the Date of Termination (such payments and the payments described in Section 5(a)(iii) shall be hereinafter referred to as the "Welfare Benefit Payments"); and

(iii) for each month during the remainder of the Employment Period, the Company shall make a cash payment equal to the excess of (x) 1.25 times the maximum allowable monthly contribution that the Executive can be required to pay for continued health and dental plan coverage under Section 4980B of the Code for the health and dental coverage provided to the Executive, the Executive's spouse and the Executive's dependents on the Date of Termination over (y) the amount that the Executive paid or contributed toward the cost of such benefits immediately before the Date of Termination.

(iv) to the extent not otherwise paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits pursuant to the terms of any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other peer executives of the Company and its affiliated companies and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Company and its affiliated companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) to the extent not otherwise provided for herein, all options, warrants or other rights to acquire capital stock of the Company and any stock appreciation rights plan or other similar plan benefits held by or for the benefit of the Executive shall become fully vested and eligible for immediate exercise.

(vi) Notwithstanding anything contained in this Agreement to the contrary, if the Executive is a "specified employee" (determined in accordance with Code Section 409A and Treasury Regulation Section 1.409A-3(i)(2)) as of the date of Separation from Service (other than a Separation from Service due to death), then any payment, benefit or entitlement provided for in this Agreement that is "deferred compensation" that is subject to Section 409A of the Code and that is payable during the first six months following the date of Separation from Service shall be paid or provided to the Executive in a lump sum cash payment to be made on the earlier of (a) the Executive's death or (b) the first business day (or within 30 days after such first business day) of the seventh calendar month immediately following the month in which the date of Separation from Service occurs. If any payment is delayed pursuant to this provision, the Company shall pay interest at the rate described below on the postponed payments from the date the payment would have been due but for this provision to the date on which such amounts are paid. Interest shall be credited at an annual rate equal to the greater of 6% or the Prime Rate, as determined by the Company, in effect on the first day of such delay compounded annually.

(b) *Death.* If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal

representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Payments and Other Benefits (excluding, in each case, Death Benefits (as defined below)) and (ii) payment to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the greater of (A) the sum of the Severance Amount and the Supplemental Retirement Amount and (B) the present value (determined as provided in Section 280G(d)(4) of the Code) of any cash amount to be received by the Executive or the Executive's family as a death benefit pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies, but not including any proceeds of life insurance covering the Executive to the extent paid for directly or on a contributory basis by the Executive (which shall be paid in any event as an Other Benefit) (the benefits included in this clause (B) shall be hereinafter referred to as the "Death Benefits").

(c) *Disability.* If the Executive becomes Disabled during the Employment Period, the Company's only obligation to the Executive will be (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of disability) and the timely payment or provision of the Welfare Benefit Payments and Other Benefits and (ii) payment to the Executive in a lump sum in cash within 30 days following the Date of Disability of an amount equal to the sum of the Severance Amount and the Supplemental Retirement Amount.

(d) *Cause; Other than for Good Reason.* If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive Annual Base Salary through the Date of Termination to the extent theretofore unpaid. If the Executive terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(e) *Non-exclusivity of Rights.* Except as provided in Sections 5(a)(ii), 5(b) and 5(c), nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect any rights the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

SECTION 6. Full Settlement; Resolution of Disputes.

(a) The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 5(a)(ii), such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any

provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), provided that the Executive takes and maintains his position in good faith; plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

(b) If there shall be any dispute between the Company and the Executive (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 5(a) as though such termination were by the Company without Cause, or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amount pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled. If the Executive has maintained his or her position in the dispute in good faith (in the sole opinion of the court, which for this purpose shall include any mediator or arbitrator, if the dispute is settled through mediation or arbitration), the Company shall reimburse the Executive for any attorneys' fees and expenses incurred by the Executive with respect to such dispute related to this Agreement, and including any actions taken by either party to appeal or enforce the judgment rendered therein. Such reimbursement shall be made by direct payment to the Executive upon delivery to the Company of valid invoices and/or receipts relating to such attorneys' fees and expenses.

SECTION 7. Parachute Payments.

(a) In the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute a "parachute payment" as defined in 280G(b)(2) of the Code (a "Parachute Payment"), then the Payments will be reduced in accordance with this Section 7 if, and only to the extent that, a reduction will allow the Executive to receive a greater Net After Tax Amount than the Executive would receive absent a reduction.

(b) An independent registered public accounting firm selected by the Company immediately prior to the Change of Control (the "Accounting Firm") will first determine the total amount of any Parachute Payments that are payable to the Executive. The Accounting Firm also will determine the Net After Tax Amount attributable to the Executive's total Parachute Payments.

(c) The Accounting Firm will next determine the largest amount of Payments that may be made to or on behalf of the Executive without subjecting the Executive to tax under Section 4999 of the Code (the "Capped Payments"). Thereafter, the Accounting Firm will determine the Net After Tax Amount attributable to the Capped Payments.

(d) The Executive will receive the total Parachute Payments or the Capped Parachute Payments, whichever provides the Executive with the higher Net After Tax Amount. If the Executive will received the Capped Payments, the total Parachute Payments will be adjusted by first reducing any Payments that do not constitute "deferred compensation" under Section 409A of the Code (by first reducing any such Payments that are not payable in cash and then by reducing the amount of any such Payments that are payable in cash) and next, if necessary, by reducing any Payments that do constitute "deferred compensation" under Section

409A of the Code (by first reducing any such Payments that are not payable in cash and then by reducing the amount of any such Payments that are payable in cash). The Accounting Firm will notify the Executive and the Company if it determines that the Parachute Payments must be reduced to the Capped Payments and will send the Executive and the Company a copy of its detailed calculations supporting that determination and showing the Payments that will be reduced.

(e) As a result of the uncertainty in the application of Sections 280G and 4999 of the Code at the time the Accounting Firm makes its determinations under this Section 7, it is possible that amounts will have been paid or distributed to the Executive that should not have been paid or distributed under this Section 7 (“Overpayments”) or that additional amounts should be paid or distributed to the Executive under this Section 7 (“Underpayments”). If the Accounting Firm determines, based on either the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive, which assertion the Accounting Firm believes has a high probability of success or controlling precedent or substantial authority, that an Overpayment has been made, the Accounting Firm will notify the Executive and the Company of that determination and the Executive must repay the Overpayment to the Company, without interest; provided, however, that no amount will be payable by the Executive unless, and then only to the extent that, the repayment would either reduce the amount on which the Executive is subject to tax under Section 4999 of the Code or generate a refund of tax imposed under Section 4999 of the Code. If the Accounting Firm determines, based upon controlling precedent or substantial authority, that an Underpayment has occurred, the Accounting Firm will notify the Executive and the Company of that determination and the amount of the Underpayment will be paid to the Executive, without interest, promptly by the Company.

(f) For purposes of this Section 7, the term “Net After Tax Amount” means that amount of any Parachute Payments or Capped Payments, as applicable, net of taxes imposed under Sections 1, 3101(b) and 4999 and any State or local income taxes applicable to the Executive on the date of payment. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the Parachute Payments or Capped Payments, as applicable, in effect on the date of payment.

SECTION 8. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive’s employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive’s employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

SECTION 9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive’s legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

SECTION 10. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604-1051
Attention: Brendan C. Maiorana

If to the Company: Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604-1051
Attention: Chairman of the Board of Directors

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(c)(i)-(v), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Effective Date, may be terminated by either the Executive or

the Company at any time. Moreover, if prior to the Effective Date, the Executive's employment with the Company terminates, then the Executive shall have no further rights under this Agreement.

(g) Payments under this Agreement shall be in lieu of payment under any other separation pay plan or arrangement for which the Executive may otherwise be eligible. Notwithstanding the terms of any such other separation pay plan or arrangement, the Executive agrees that he shall not be eligible for any benefits thereunder.

(h) Any reimbursements or in-kind benefits to be provided pursuant to this Agreement (including but not limited to Sections 3(b)(v), 3(b)(vi), 3(b)(vii), 5(a)(iii) and 6) that are taxable to Executive shall be subject to the following restrictions: (a) each reimbursement must be paid no later than the last day of the calendar year following the Executive's tax year during which the expense was incurred or tax was remitted, as the case may be; (b) the amount of expenses or taxes eligible for reimbursement, or in-kind benefits provided, during a tax year of the Executive may not affect the expenses or taxes eligible for reimbursement, or in-kind benefits to be provided, in any other tax year of the Executive; (c) the period during which any reimbursement may be paid or in-kind benefit may be provided is the later of ten years after termination of this Agreement; and (d) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE:

/s/ Brendan C. Maiorana

Brendan C. Maiorana

HIGHWOODS PROPERTIES, INC.

By:

/s/ Theodore J. Klinck

Theodore J. Klinck

President

EXECUTIVE SUPPLEMENTAL EMPLOYMENT AGREEMENT

AGREEMENT by and between HIGHWOODS PROPERTIES, INC., a Maryland corporation (the “Company”), and Brian M. Leary (the “Executive”), dated as of July 19, 2019.

The Board of Directors of the Company (the “Board”) has determined that it is in the best interests of the Company and its stockholders to ensure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 1) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive’s full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

SECTION 1. Certain Definitions.

(a) The “Effective Date” shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive’s employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the “Effective Date” shall mean the date immediately prior to the date of such termination of employment.

(b) The “Change of Control Period” shall mean the period commencing on the date hereof and ending on the third anniversary of such date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the “Renewal Date”), the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

(c) For purposes of this Agreement, a “Change of Control” shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (a) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change of Control: (I) any acquisition directly

from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (IV) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (I), (II) and (III) of subsection (i) of this Section 1(c) are satisfied; or

(ii) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions, as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (b) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (c) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(iv) Approval by the stockholders of the Company of (a) a complete liquidation or dissolution of the Company or (b) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (I) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (II) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or

such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (III) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

(d) “Separation from Service, “Termination of Employment,” “Terminates Employment” and similar terms mean the date that Executive separated from service within the meaning of section 409A of the Code. Generally, Executive will separate from service if the Executive dies, retires, or otherwise has a Separation from Service with the Company, determined in accordance with the following:

(i) Leaves of Absence. The employment relationship is treated as continuing intact while Executive is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months, or, if longer, so long as Executive retains a right to reemployment with the Company under an applicable statute or by contract. A leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that Executive will return to perform services for the Company. If the period of leave exceeds six (6) months and Executive does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six (6)-month period. Notwithstanding the foregoing, where a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months, where such impairment causes Executive to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a twenty-nine (29)-month period of absence shall be substituted for such six (6)-month period.

(ii) Dual Status. Generally if Executive performs services both as an employee and an independent contractor, Executive must separate from service both as an employee, and as an independent contractor pursuant to standards set forth in the Treasury Regulations, to be treated as having a Separation from Service. However, if Executive provides services to the Company as an employee and as a member of the Board, and if any plan in which such person participates as a Board member is not aggregated with this Agreement pursuant to Treasury Regulation Section 1.409A-1(c)(2)(ii), then the services provided as a director are not taken into account in determining whether Executive has a Separation from Service as an employee for purposes of this Agreement.

(iii) Separation from Service. Whether a Separation from Service has occurred is determined based on whether the facts and circumstances indicate that the Company and Executive reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services Executive would perform after such date (whether as an employee or as an independent contractor except as provided in the preceding paragraph) would permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed (whether as an employee or an independent contractor, except as provided in the preceding paragraph) over the immediately preceding thirty six (36) month period (or the full period of services to the Company if Executive has been providing services to the Company less than thirty six (36) months). For periods during which Executive is on a paid bona fide leave of absence and has not otherwise terminated employment as described above, for purposes of this paragraph Executive is treated as providing bona fide services at a level equal to the level of services that Executive would have been required to perform to receive the compensation paid with respect to such leave of absence. Periods during which Executive is on an unpaid bona fide leave of absence and has not otherwise terminated

employment are disregarded for purposes of this paragraph (including for purposes of determining the applicable thirty six (36) month (or shorter) period).

(iv) Service with Related Companies. For purposes of determining whether a Separation from Service has occurred under the above provisions, the “Company” shall include the Company and all Related Companies. “Related Company” means: (1) any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b) that includes the Company); and (ii) any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c) with the Company. For purposes of applying Code Sections 414(b) and (c), 50% is substituted for the 80% ownership level.

(e) “Related Company” means: (1) any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b) that includes the Company); and (ii) any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c) with the Company. For purposes of applying Code Sections 414(b) and (c), 50% is substituted for the 80% ownership level.

SECTION 2. Employment Period. The term of this Agreement shall commence on the Effective Date and end on the third anniversary of such date (the “Employment Period”), subject to the termination provisions in Sections 4 and 5 herein.

SECTION 3. Terms of Employment.

(a) *Position and Duties*.

(i) During the Employment Period, (A) the Executive’s position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date and (B) the Executive’s services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive’s reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive’s responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not hereafter be deemed to interfere with the performance of the Executive’s responsibilities to the Company.

(b) *Compensation*.

(i) *Base Salary*. During the Employment Period, the Executive shall receive an annual base salary (“Annual Base Salary”), which shall be paid in equal installments on a monthly basis, at least

equal to twelve times the highest monthly base salary paid or payable to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term “affiliated companies” shall include any company controlled by, controlling or under common control with the Company.

(ii) *Annual Bonus.* In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the “Annual Bonus”) in cash at least equal to the average bonus paid or payable, including by reason of any deferral, to the Executive (or, if the Executive has been employed by the Company for less than three full fiscal years, then the average bonus paid or payable to the executive officer who was employed by the Company in a similar capacity as the Executive during such three full fiscal years) by the Company and its affiliated companies in respect of the three fiscal years immediately preceding the fiscal year in which the Effective Date occurs (the “Recent Average Bonus”). Without limitation, for purposes of this Agreement, the terms “Annual Bonus” and “Recent Average Bonus” shall be deemed to include amounts earned (whether or not paid) with respect to any applicable period under any Non-Equity Incentive Plan (as such term is defined in Item 402(a)(6)(iii) of Regulation S-K promulgated under the Exchange Act and the Securities Act of 1933, as amended, including any successor thereto). Each such Annual Bonus shall be paid within 2 ½ months following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect, pursuant to a plan of nonqualified deferred compensation adopted by the Company, if any, under which the Annual Bonus may be deferred, to defer the receipt of such Annual Bonus.

(iii) *Special Bonus.* In addition to Annual Base Salary and Annual Bonus payable as hereinabove provided, if the Executive remains employed with the Company and its affiliated companies through the first anniversary of the Effective Date, the Company shall pay to the Executive a special bonus (the “Special Bonus”) in recognition of the Executive’s services during the critical one-year transition period following the Change of Control in cash equal to the sum of (A) the Executive’s Annual Base Salary and (B) the greater of (1) the Annual Bonus paid or payable, which for this purpose shall include any portion of the Annual Bonus with a deferred payment date, to the Executive for the most recently completed fiscal year during the Employment Period, if any, and (2) the Recent Average Bonus (or, if the Executive has been employed by the Company for less than three full fiscal years, then the average bonus paid or payable to the executive officer who was employed by the Company in a similar capacity as the Executive during such three full fiscal years) (such greater amount shall be hereinafter referred to as the “Highest Annual Bonus”). The Special Bonus shall be paid no later than 30 days following the first anniversary of the Effective Date.

(iv) *Incentive, Savings and Retirement Plans.* During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or if more favorable to the Executive, those

provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) *Welfare Benefit Plans.* During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(vi) *Expenses.* During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date, or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) *Fringe Benefits.* During the Employment Period, the Executive shall be entitled to fringe benefits no less favorable, in the aggregate, than the plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date, or if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) *Office and Support Staff.* During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(ix) *Vacation.* During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

SECTION 4. Termination of Employment.

(a) *Death or Disability.* The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 10(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time

performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the Executive is: (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or (2) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

(b) *Cause.* The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" occurs when the Executive does any of the following:

(i) is convicted of a felony involving moral turpitude under federal, state or local law;

(ii) materially breaches the Executive's obligations under Section 3(a) (other than as a result of incapacity due to physical or mental illness) that is demonstrably willful and deliberate on the Executive's part, that is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and that is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach); and/or

(iii) is convicted of any applicable local, state or federal law or Company policy related to discrimination or harassment.

(c) *Good Reason.* The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirement), authority, duties or responsibilities as contemplated by Section 3(a) or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(a) (i) (B);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 9(c), provided that such successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 9(c).

For purposes of this Section 4(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(d) *Notice of Termination.* Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b). For purposes of this Agreement, a “Notice of Termination” means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date of such notice. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder. Executive shall be required to provide notice to the Company of the existence of any condition that constitutes Good Reason within 90 days of the initial existence of the condition, and upon the receipt of such notice the Company shall have a period of 30 days during which it may remedy the condition.

(e) *Date of Termination.* “Date of Termination” means the date the Executive experiences a Separation from Service.

SECTION 5. Obligations of the Company upon Termination.

(a) *Good Reason; Other than for Cause, Death or Disability.* If, during the Employment Period, the Company shall terminate the Executive’s employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Highest Annual Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) the Special Bonus, if due to the Executive pursuant to Section 3(b)(iii), to the extent not theretofore paid, and (4) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), (3) and (4) shall be hereinafter referred to as the “Accrued Obligations”); and

(B) the amount (such amount shall be hereinafter referred to as the “Severance Amount”) equal to the product of (1) 2.99 and (2) the sum of (x) the Executive’s Annual Base Salary and (y) the Highest Annual Bonus (provided, however, that if the Special Bonus has not been paid to the Executive, such amount shall be increased by the amount of the Special Bonus); and

(C) a separate lump-sum supplemental retirement benefit (the amount of such benefit shall be hereinafter referred to as the “Supplemental Retirement Amount”) equal to the difference between (1) the lump sum actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Company’s Retirement Plan (or any successor plan thereto) (the “Retirement Plan”) during the 90-day period immediately preceding the Effective Date) of the benefit payable under the Retirement Plan and any supplemental and/or excess retirement plan of the Company and its affiliated companies providing benefits for the Executive (the “SERP”) which the Executive would receive if the Executive’s employment continued at the compensation level provided for in Sections 3(b)(i) and 3(b)(ii) for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period

immediately preceding the Effective Date, and (2) the lump sum actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Retirement Plan during the 90-day period immediately preceding the Effective Date) of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP; and

(ii) for each month during the remainder of the Employment Period, the Company shall make a cash payment equal to the excess of (x) 1.25 times one-twelfth of the annual insurance premium (or, in the case of any benefit provided on a self-insured basis, an amount equal to a market-based insurance premium for the same coverage) for the plans, programs, policies and practices described in Section 3(b)(v) other than health and dental benefits, covering the Executive and/or the Executive's family on the Date of Termination over (y) the amount that the Executive paid or contributed toward the cost of such benefits immediately before the Date of Termination (such payments and the payments described in Section 5(a)(iii) shall be hereinafter referred to as the "Welfare Benefit Payments"); and

(iii) for each month during the remainder of the Employment Period, the Company shall make a cash payment equal to the excess of (x) 1.25 times the maximum allowable monthly contribution that the Executive can be required to pay for continued health and dental plan coverage under Section 4980B of the Code for the health and dental coverage provided to the Executive, the Executive's spouse and the Executive's dependents on the Date of Termination over (y) the amount that the Executive paid or contributed toward the cost of such benefits immediately before the Date of Termination.

(iv) to the extent not otherwise paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits pursuant to the terms of any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other peer executives of the Company and its affiliated companies and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Company and its affiliated companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(v) to the extent not otherwise provided for herein, all options, warrants or other rights to acquire capital stock of the Company and any stock appreciation rights plan or other similar plan benefits held by or for the benefit of the Executive shall become fully vested and eligible for immediate exercise.

(vi) Notwithstanding anything contained in this Agreement to the contrary, if the Executive is a "specified employee" (determined in accordance with Code Section 409A and Treasury Regulation Section 1.409A-3(i)(2)) as of the date of Separation from Service (other than a Separation from Service due to death), then any payment, benefit or entitlement provided for in this Agreement that is "deferred compensation" that is subject to Section 409A of the Code and that is payable during the first six months following the date of Separation from Service shall be paid or provided to the Executive in a lump sum cash payment to be made on the earlier of (a) the Executive's death or (b) the first business day (or within 30 days after such first business day) of the seventh calendar month immediately following the month in which the date of Separation from Service occurs. If any payment is delayed pursuant to this provision, the Company shall pay interest at the rate described below on the postponed payments from the date the payment would have been due but for this provision to the date on which such amounts are paid. Interest shall be credited at an annual rate equal to the greater of 6% or the Prime Rate, as determined by the Company, in effect on the first day of such delay compounded annually.

(b) *Death.* If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal

representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Payments and Other Benefits (excluding, in each case, Death Benefits (as defined below)) and (ii) payment to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the greater of (A) the sum of the Severance Amount and the Supplemental Retirement Amount and (B) the present value (determined as provided in Section 280G(d)(4) of the Code) of any cash amount to be received by the Executive or the Executive's family as a death benefit pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies, but not including any proceeds of life insurance covering the Executive to the extent paid for directly or on a contributory basis by the Executive (which shall be paid in any event as an Other Benefit) (the benefits included in this clause (B) shall be hereinafter referred to as the "Death Benefits").

(c) *Disability.* If the Executive becomes Disabled during the Employment Period, the Company's only obligation to the Executive will be (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of disability) and the timely payment or provision of the Welfare Benefit Payments and Other Benefits and (ii) payment to the Executive in a lump sum in cash within 30 days following the Date of Disability of an amount equal to the sum of the Severance Amount and the Supplemental Retirement Amount.

(d) *Cause; Other than for Good Reason.* If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive Annual Base Salary through the Date of Termination to the extent theretofore unpaid. If the Executive terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(e) *Non-exclusivity of Rights.* Except as provided in Sections 5(a)(ii), 5(b) and 5(c), nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect any rights the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

SECTION 6. Full Settlement; Resolution of Disputes.

(a) The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 5(a)(ii), such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any

provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), provided that the Executive takes and maintains his position in good faith; plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

(b) If there shall be any dispute between the Company and the Executive (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 5(a) as though such termination were by the Company without Cause, or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amount pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled. If the Executive has maintained his or her position in the dispute in good faith (in the sole opinion of the court, which for this purpose shall include any mediator or arbitrator, if the dispute is settled through mediation or arbitration), the Company shall reimburse the Executive for any attorneys' fees and expenses incurred by the Executive with respect to such dispute related to this Agreement, and including any actions taken by either party to appeal or enforce the judgment rendered therein. Such reimbursement shall be made by direct payment to the Executive upon delivery to the Company of valid invoices and/or receipts relating to such attorneys' fees and expenses.

SECTION 7. Parachute Payments.

(a) In the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute a "parachute payment" as defined in 280G(b)(2) of the Code (a "Parachute Payment"), then the Payments will be reduced in accordance with this Section 7 if, and only to the extent that, a reduction will allow the Executive to receive a greater Net After Tax Amount than the Executive would receive absent a reduction.

(b) An independent registered public accounting firm selected by the Company immediately prior to the Change of Control (the "Accounting Firm") will first determine the total amount of any Parachute Payments that are payable to the Executive. The Accounting Firm also will determine the Net After Tax Amount attributable to the Executive's total Parachute Payments.

(c) The Accounting Firm will next determine the largest amount of Payments that may be made to or on behalf of the Executive without subjecting the Executive to tax under Section 4999 of the Code (the "Capped Payments"). Thereafter, the Accounting Firm will determine the Net After Tax Amount attributable to the Capped Payments.

(d) The Executive will receive the total Parachute Payments or the Capped Parachute Payments, whichever provides the Executive with the higher Net After Tax Amount. If the Executive will received the Capped Payments, the total Parachute Payments will be adjusted by first reducing any Payments that do not constitute "deferred compensation" under Section 409A of the Code (by first reducing any such Payments that are not payable in cash and then by reducing the amount of any such Payments that are payable in cash) and next, if necessary, by reducing any Payments that do constitute "deferred compensation" under Section

409A of the Code (by first reducing any such Payments that are not payable in cash and then by reducing the amount of any such Payments that are payable in cash). The Accounting Firm will notify the Executive and the Company if it determines that the Parachute Payments must be reduced to the Capped Payments and will send the Executive and the Company a copy of its detailed calculations supporting that determination and showing the Payments that will be reduced.

(e) As a result of the uncertainty in the application of Sections 280G and 4999 of the Code at the time the Accounting Firm makes its determinations under this Section 7, it is possible that amounts will have been paid or distributed to the Executive that should not have been paid or distributed under this Section 7 (“Overpayments”) or that additional amounts should be paid or distributed to the Executive under this Section 7 (“Underpayments”). If the Accounting Firm determines, based on either the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive, which assertion the Accounting Firm believes has a high probability of success or controlling precedent or substantial authority, that an Overpayment has been made, the Accounting Firm will notify the Executive and the Company of that determination and the Executive must repay the Overpayment to the Company, without interest; provided, however, that no amount will be payable by the Executive unless, and then only to the extent that, the repayment would either reduce the amount on which the Executive is subject to tax under Section 4999 of the Code or generate a refund of tax imposed under Section 4999 of the Code. If the Accounting Firm determines, based upon controlling precedent or substantial authority, that an Underpayment has occurred, the Accounting Firm will notify the Executive and the Company of that determination and the amount of the Underpayment will be paid to the Executive, without interest, promptly by the Company.

(f) For purposes of this Section 7, the term “Net After Tax Amount” means that amount of any Parachute Payments or Capped Payments, as applicable, net of taxes imposed under Sections 1, 3101(b) and 4999 and any State or local income taxes applicable to the Executive on the date of payment. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the Parachute Payments or Capped Payments, as applicable, in effect on the date of payment.

SECTION 8. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive’s employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive’s employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

SECTION 9. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive’s legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

SECTION 10. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604-1051
Attention: Brian M. Leary

If to the Company: Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604-1051
Attention: Chairman of the Board of Directors

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(c)(i)-(v), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Effective Date, may be terminated by either the Executive or

the Company at any time. Moreover, if prior to the Effective Date, the Executive's employment with the Company terminates, then the Executive shall have no further rights under this Agreement.

(g) Payments under this Agreement shall be in lieu of payment under any other separation pay plan or arrangement for which the Executive may otherwise be eligible. Notwithstanding the terms of any such other separation pay plan or arrangement, the Executive agrees that he shall not be eligible for any benefits thereunder.

(h) Any reimbursements or in-kind benefits to be provided pursuant to this Agreement (including but not limited to Sections 3(b)(v), 3(b)(vi), 3(b)(vii), 5(a)(iii) and 6) that are taxable to Executive shall be subject to the following restrictions: (a) each reimbursement must be paid no later than the last day of the calendar year following the Executive's tax year during which the expense was incurred or tax was remitted, as the case may be; (b) the amount of expenses or taxes eligible for reimbursement, or in-kind benefits provided, during a tax year of the Executive may not affect the expenses or taxes eligible for reimbursement, or in-kind benefits to be provided, in any other tax year of the Executive; (c) the period during which any reimbursement may be paid or in-kind benefit may be provided is the later of ten years after termination of this Agreement; and (d) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE:

/s/ Brian M. Leary

Brian M. Leary

HIGHWOODS PROPERTIES, INC.

By: _____
/s/ Theodore J. Klinck

Theodore J. Klinck

President

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2019

/s/ Edward J. Fritsch

Edward J. Fritsch
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2019

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2019

/s/ Edward J. Fritsch

Edward J. Fritsch
Chief Executive Officer of the General Partner

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2019

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer of the General Partner

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Fritsch, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward J. Fritsch

Edward J. Fritsch
Chief Executive Officer

July 23, 2019

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer

July 23, 2019

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the "Operating Partnership") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Fritsch, Chief Executive Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Edward J. Fritsch

Edward J. Fritsch
Chief Executive Officer of the General Partner
July 23, 2019

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the "Operating Partnership") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Mark F. Mulhern

Mark F. Mulhern

Executive Vice President and Chief Financial Officer of the General Partner

July 23, 2019