

# THE PARKWAY COMPANY

1995 ANNUAL REPORT





#### THE PARKWAY COMPANY

outside the newly acquired  
Mtel Centre Office Building  
in Jackson, Mississippi.

Officers (front row, from left):

Susan D. Egger, Assistant

Controller; Regina P. Shows,

Controller; James M. Ingram,

Vice President; Sarah P. Clark,

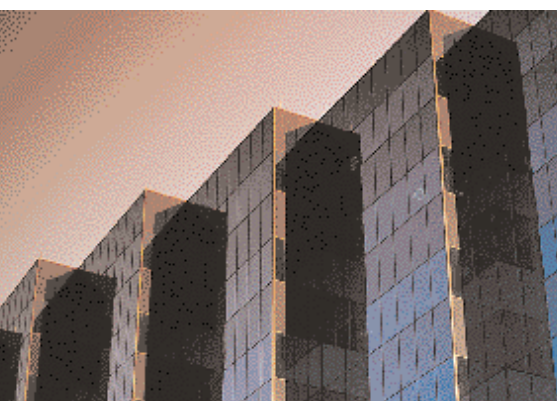
Chief Financial Officer;

Steven G. Rogers, President;

David R. Fowler, Vice President

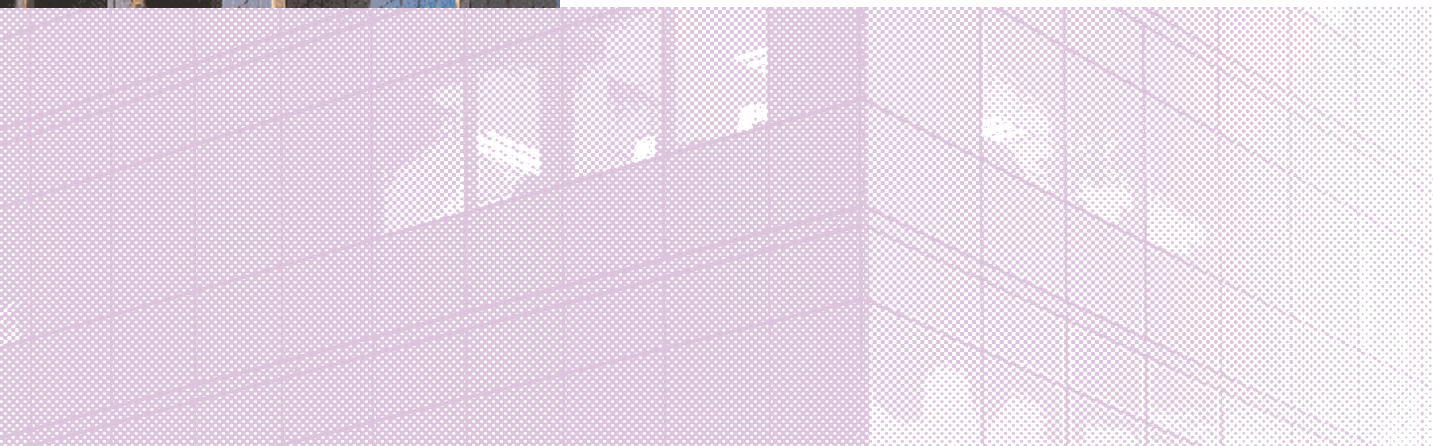
## FINANCIAL HIGHLIGHTS

	Twelve Months Ended December 31	
	1995	1994
REVENUES:		
Operations . . . . .	<b>\$ 12,767</b>	\$ 8,993
Gains . . . . .	<b>10,866</b>	897
FUNDS FROM OPERATIONS . . . . .	<b>2,081</b>	624
NET INCOME . . . . .	<b>11,820</b>	1,467
TOTAL ASSETS . . . . .	<b>88,043</b>	61,062
TOTAL SHAREHOLDERS' EQUITY . . . . .	<b>\$ 49,211</b>	\$ 32,238
PER SHARE DATA:		
Net Income . . . . .	<b>\$ 6.36</b>	\$ 1.02
Funds From Operations . . . . .	<b>1.12</b>	0.43
Book Value . . . . .	<b>24.51</b>	20.63
Dividends Paid . . . . .	<b>0.66</b>	0.61



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To Our Shareholders ...

We are pleased  
to report the results  
of an exceptional year.

Net income was \$11,820,000 (\$6.36 per share)

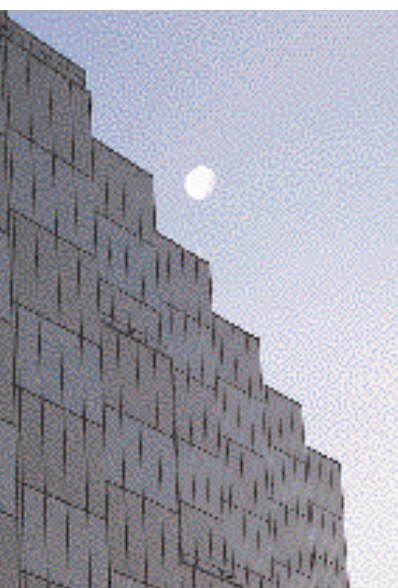
for the 12 month period ending December 31,

1995 compared to \$1,467,000 (\$1.02 per share)

for the same period of 1994.



The Parkway  
Company currently owns  
approximately  
1,000,000 square  
feet of Class A  
office space ...



Funds from operations (FFO) were \$2,081,000 (\$1.12 per share) for the 12-month period versus \$624,000 (\$.43 per share) for the previous comparable period. Net income for 1995 includes gains of \$10,866,000 from the sale of real estate and securities and the collection of mortgage notes receivable compared to gains of \$897,000 in 1994. Excluding these gains, net income increased \$384,000, or 67%, as compared to last year. FFO, which does not include gains, increased \$1,457,000 or 233% as compared to last year. We believe it is important to note that while earnings still remain an important measure of Parkway's performance, they can fluctuate greatly

when several gains are realized at once as happened this year. For that reason and the fact that most of our real estate industry peers have adopted FFO as an important measure of a real estate company's performance, we will emphasize FFO in the future.

The Parkway Company currently owns approximately 1,000,000 square feet of Class A office space with a cost basis of approximately \$60.73 per square foot, well below original construction cost and current replacement cost. Our other assets consist of cash and marketable securities, mortgage note receivables, land and other

income producing properties. We expect to continue purchasing and operating select office properties in the southern United States.

### MERGER WITH EB, INC.

We welcome the many new shareholders that joined Parkway as a result of the merger of EB, Inc. into a wholly-owned subsidiary on April 27, 1995. EB, Inc. owned 637,705 shares of Union Planters Corporation stock and other assets at the merger date consisting of approximately \$13,703,000 in mortgage note receivables, \$8,603,000 in cash and \$1,496,000 in real estate. The terms of the merger called for each shareholder of EB, Inc., exclusive of

Parkway, to receive \$8.00 in cash and \$9.25 in value of Parkway stock. For purposes of calculating the number of Parkway shares an EB, Inc. shareholder would receive in the merger, Parkway shares were valued at \$14.85. The price of Parkway's stock as of March 15, 1996 was \$21.63. Parkway issued 428,955 shares of its stock to EB, Inc. shareholders in the merger. A principal benefit to Parkway and the former EB, Inc. shareholders is that the issuance of these shares increased the market capitalization of the Company by approximately 27% and created greater trading liquidity for our common stock. A more detailed description of EB, Inc. and the merger transaction are offered elsewhere in this report.

### ACQUISITION OF MTEL CENTRE OFFICE BUILDING

One of the most significant events during the year was the acquisition of Mtel Centre in Jackson, Mississippi, a 260,000 net rentable square foot office complex with a 130 space parking deck, in July. The 10- and 12-story towers were built in the 1950's and underwent complete renovation costing in excess of \$20,000,000 in 1986. We purchased the building from the Resolution Trust Corporation for \$13,500,000. Mtel, the major tenant, signed a lease for in excess of 150,000 square feet on a 10-year noncancelable term at closing. We placed a 12 year fully amortizing non-recourse mortgage on the Mtel Centre with an insurance company at a fixed interest rate of 7.75% in late December. As of March 15, 1996, the building is 99% leased and the overall Jackson Class A office market is approximately 96% leased.

### ACQUISITION OF IBM OFFICE BUILDING

In October, we purchased the IBM Building, a 90,000 net rentable square foot Class A office building in northeast Jackson, Mississippi. This building is 94% leased as of March 15, 1996 by 13 tenants, four of which - IBM, GMAC, General Electric and Conway Computer Group - occupy 51% of the building. The purchase price was \$6,500,000. We have

initiated a capital improvement program totalling approximately \$200,000. In February 1996, we placed a non-recourse mortgage at a fixed interest rate of 7.70% and a 15 year amortization period on the building.

## ACQUISITION OF WATERSTONE OFFICE BUILDING

In mid-December, the Company acquired the Waterstone Building, a 92,600 net rentable square foot office building with 361 surface parking spaces in suburban Atlanta, Georgia for \$8,031,000. The building is 93% leased as of March 15, 1996. The building currently has no mortgage debt outstanding. However, the Company has applied for a non-recourse fixed-rate mortgage on this building.

## REFINANCING OF ONE JACKSON PLACE

In October, we refinanced our largest office building loan, One Jackson Place. The partnership owning One Jackson Place paid approximately \$4,004,000 to New York Life which reduced the principal balance on the loan to \$18,400,000 and received a reduction in the interest rate from 9.25% to 7.85% on this non-recourse loan. The Company will amortize this loan on a 20-year schedule with a balloon payment in the year 2010, when the loan matures. This action will result in a material interest expense savings to the Company. Subsequent to year end, an unrelated third party purchased our partner's 21.875% interest in One Jackson Place. The new owner repaid the former partner's debt by funding approximately \$1,196,000 to Parkway.

## ACQUISITION OF ONE PARK 10 PLAZA OFFICE BUILDING

Subsequent to year end, we acquired the One Park 10 Plaza office building, a 161,000 net rentable square foot building located in the Katy Freeway/Energy Corridor in West Houston, Texas for \$6,700,000. We expect to make certain cosmetic and capital improvements to the property, bringing the total cost to approximately \$6,850,000. At an acqui-

sition cost of \$41.61 per square foot, this purchase represents a substantial discount to current replacement cost. The building was 93% leased at March 15, 1996. We will apply for a non-recourse mortgage on this property later in the year. The Katy Freeway/Energy Corridor has a 2% Class A vacancy rate and a total submarket square footage of 15,000,000 with a 10% overall vacancy rate for all classes.

Our office portfolio now consists of nine office buildings comprising approximately 1,000,000 square feet which is approximately 96% leased as of March 15, 1996. Due to our increased office building investment in Jackson, Mississippi, we have added an insert on the following page describing the office building economics.

## OTHER NOTABLE 1995 ACCOMPLISHMENTS

- Increased our quarterly dividend from \$.16 per share to \$.17 per share in September.
- Sold 20 acres of land at Sugar Land near Houston, Texas for a net sales price of \$5,719,000, generating a gain of \$3,365,000. Other sales of land included 19 acres in Fort Worth, Texas, 54 acres in Atlanta, Georgia, 2.5 acres in Jackson, Mississippi and various other smaller parcels producing aggregate cash proceeds of \$957,000 and notes receivable of \$330,000. Gains on these sales of land totalled \$751,000.
- Sold 637,705 shares of Union Planters stock for \$19,244,000 cash producing a gain of \$4,175,000 for financial reporting purposes.
- Sold the Corporate Square East office building for a net sales price of \$682,000 and the American Inn North Hotel for \$1,188,000 for an aggregate gain of \$502,000. Both of these projects are located in Indianapolis, Indiana. These projects no longer fit the Company's investment strategy due to their age and location.
- Received \$1,929,000 as payment in full on two mortgage notes receivable resulting in gains of approximately \$1,486,000.

These transactions are in keeping with our plan of liquifying assets which no longer meet the Company's investment criteria and redeploying the proceeds into investments in office building assets.

### EASTOVER REALTY

The continued growth of our fee based business is of particular note. Eastover Realty is a wholly-owned subsidiary of the Company and offers full-service leasing, management, construction and brokerage services to several third party clients, principally in the office building area, as well as managing office projects owned by Parkway. From no contracts or revenues in 1987 to 13 contracts and \$1,041,000 gross revenues in 1995, Eastover Realty has contributed positively to the Company's financial performance. This activity not only contributes income to our Company but also allows it to have a larger staff with a broader range of direct management and leasing skills. This enables us to be better equipped and more entrepreneurial in the management and leasing of our owned properties.

We have included a description, definition and impact on the Company of the effects of purchase method merger accounting in the "Management's Discussion and Analysis" section of this report. Please take time to read this. The mergers that were completed in 1994 with First Continental REIT and Congress Street Properties, Inc. and in 1995 with EB, Inc. have a material impact on the financial statements of your Company.

In an effort to better serve you, our shareholders, we are introducing several new means by which we will communicate important Company news and information in the future. All Company press releases will be available to you through a fax-on-demand system offered by PR Newswire as soon as the information is released to the media. In addition, quarterly reports and press releases may be accessed through The Parkway Company's home page on the World Wide Web at <http://www.parkwayco.com> and through PR Newswire's home page at <http://www.prnewswire.com>. We believe that

these resources will provide our shareholders with convenient and timely updates on important Company news throughout the year, as well as reduce distribution and printing costs for the Company. As a result of these changes, we will discontinue the traditional mailing of quarterly reports beginning in March 1996. Shareholders without convenient access to a fax machine or the Internet may call 1-800-748-1667 to have a copy of quarterly financial results mailed to them.

We remain enthusiastic about the prospects for the Company. Parkway's success is based on our belief in the fundamental long-term value of real estate as an investment and our disciplined approach of adding value. We expect 1996 to be a year of continued challenges, as well as one of many opportunities.

As always, we are grateful for the trust and efforts extended by our shareholders, employees, business associates, tenants, directors and the communities of which we are a part. You can be sure that our actions are focused on maximizing the value of your investment.



Steven G. Rogers  
President



Leland R. Speed  
Chairman

March 15, 1996



## THE JACKSON, MISSISSIPPI OFFICE MARKET

Mississippi was ranked 4th in income growth rate and the 8th overall state economy in the United States by U.S. News and World Report in the November 1994 issue. In 1995, Mississippi enjoyed its lowest unemployment rate in sixteen years. Jackson is the state capitol and largest city in Mississippi with a SMSA population of approximately 410,000. Jackson's population growth exceeded the U.S. growth rate for the decade of the 1980's.

The Jackson office market did not suffer serious overbuilding during the mid to late 1980's and consequently recovered earlier than most cities. As early as February, 1993, the Jackson office market boasted a vacancy rate of only 6.7% and

three distinct submarkets, each with its own characteristics which make it attractive to tenants located in that market.

There are currently under construction two additional Class A office properties totaling 50,000 square feet and no major deliveries expected in the near future. Rental rates have increased for several years since supply/demand equilibrium was reached. The top five Central Business District Class A properties, which both of Parkway's buildings fall into, claimed rental rates of approximately \$16.00 to \$17.00, with One Jackson Place topping the list at \$18.00 per rentable square foot.

Principal users are financial institutions, insurance companies, professional firms, utilities and a growing telecommunications industry.

**As early as February, 1993, the Jackson office market boasted a vacancy rate of only 6.7% and was ranked #1 by the American Bankers Association Magazine Report of the 100 largest metropolitan office markets in the United States.**

was ranked #1 by the American Bankers Association Magazine Report of the 100 largest metropolitan office markets in the United States.

Since then, the market has enjoyed steady improvement. Outlined below is a brief synopsis of the Jackson office market. It is divided into

## OFFICE MARKET SUMMARY

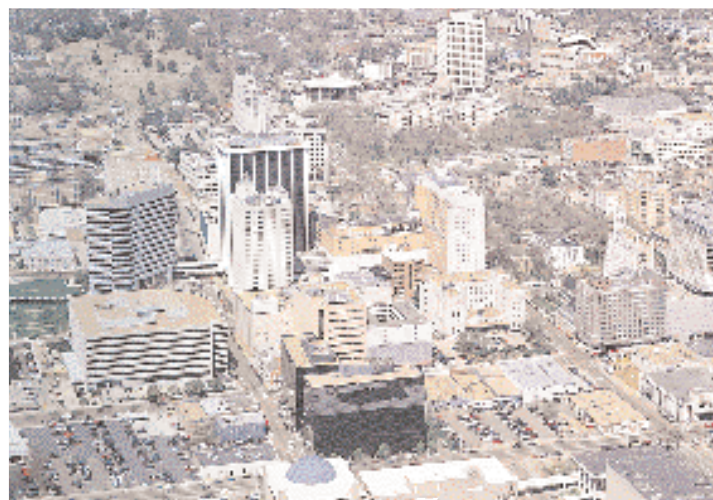
As of March 15, 1996

	Number of Buildings	Average Square Feet	Occupancy	Rental Rate
Central Business District <sup>1</sup>	12	2,201,000	97.4%	\$15.63
I-55 North/County Line Rd. <sup>2</sup>	15	1,164,000	95.3%	15.43
Lakeland Corridor	10	581,000	94.0%	13.80
TOTAL	37	3,946,000	95.5%	\$15.05

(Survey includes 37 Class A & B buildings, one of which is under construction)

1 = Location of One Jackson Place and Mtel Centre

2 = Location of IBM Building



Central Business District  
Jackson, Mississippi



## DESCRIPTION OF BUSINESS

### ORIGINAL ORGANIZATION

The Parkway Company (*Parkway* or the *Company*) was created in 1971 under the Texas Real Estate Investment Trust Act and operated under the name Texas First Mortgage Real Estate Investment Trust (TFMR). From its inception through June 30, 1974, TFMR operated as a qualified real estate investment trust (REIT) under the Internal Revenue Code of 1954, as amended (Code). TFMR terminated its qualification as a REIT under the Code for fiscal years ending after 1974. TFMR was reorganized and converted into a Texas corporation known as The Parkway Company on January 7, 1981.

### INVESTMENT STRATEGY

Parkway is a full service real estate investment company specializing primarily in the ownership, management, leasing and development of office properties in the Southeast and Southwest United States. The Company will seek investments where the expertise of the Parkway staff can add value through direct management, hands-on operating philosophy and the Company's liquidity and financial strength.

The Company will invest directly in properties in the form of equity ownership. These investments may include acquiring equity positions in private or publicly-traded companies. Parkway's operating philosophy will be based on superior service to its customers, timely sales of non-core assets, sound new investments, simplicity and innovation.

A fundamental component of Parkway's business strategy has been the investigation of possible mergers or acquisitions of other real estate companies to increase its asset base and, thereby, its ability to compete with larger real estate investors for attractive real estate opportunities. This was

carried out in the past through the acquisition of GNB in August 1979 and Sugar Creek Corporation in March 1980, mergers of the NOVA Real Estate Investment Trust in June 1983 and Highlands National, Inc. in April 1986 and the acquisition of EastPark Realty Trust in April 1990. More recently, this was accomplished through the mergers of First Continental Real Estate Investment Trust (*First Continental* or *FCREIT*) effective May 10, 1994, Congress Street Properties, Inc. (Congress Street) effective November 29, 1994 and EB, Inc. (EB) effective April 27, 1995.

### ADMINISTRATION

Since January 1, 1995, Parkway has self-managed its operations. From 1980 through 1994, Parkway operated under an expense-sharing agreement with certain affiliated companies. The expense-sharing agreement provided that the participating companies have common officers, facilities and personnel, and the costs of these were shared among the participants. Certain costs, including directors' fees, legal, audit and stock transfer expenses, were considered non-allocable and paid directly by each participating company. As a result of certain business combinations involving the expense-sharing participants, the expense-sharing agreement was terminated on December 31, 1994. Since that date, Parkway has maintained its own employees and offices located in One Jackson Place in Jackson, Mississippi. Leland R. Speed continues to serve as the Chairman of the Board and Chief Executive Officer of Parkway and EastGroup Properties (EastGroup), a former participant in the expense-sharing agreement. The administrative costs associated with Mr. Speed and a small number of clerical and support staff employees are shared equally by Parkway and EastGroup.

## RECENT MERGERS

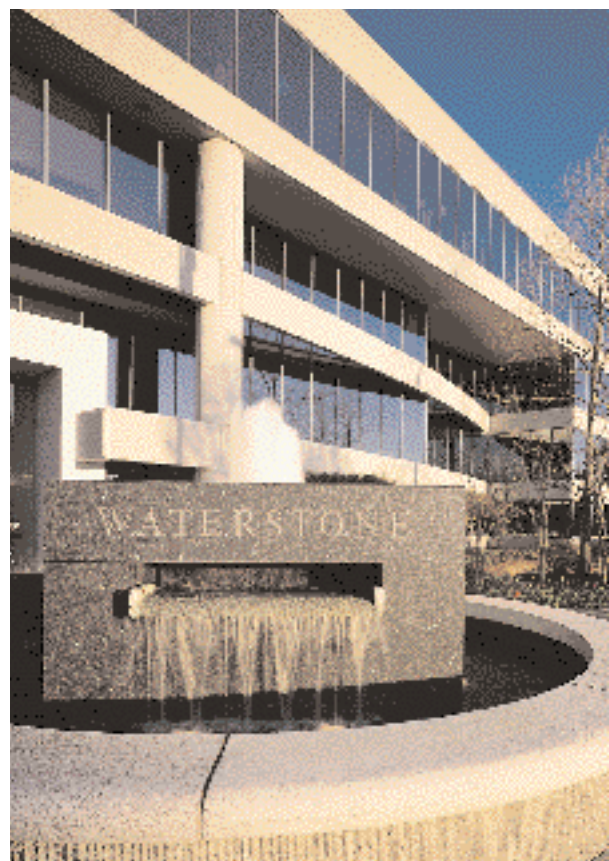
**CONGRESS STREET** Effective November 29, 1994, the merger of Congress Street with Parkway Congress Corporation, a wholly-owned subsidiary of the Company, was completed. The increase to net assets was as follows:

Parkway shares reacquired	
(567,066 shares)	\$ 7,939,000
Operating real estate	675,000
Real estate companies	201,000
Mortgage loans	27,000
Cash	42,000
Accounts receivable and other assets	84,000
Notes payable to bank	(27,000)
Accounts payable & other liabilities	(235,000)
	8,706,000
Parkway shares retired at date	
of merger (567,066 shares)	(7,939,000)
Increase to net assets	\$ 767,000

The Company's purchase price of these assets consisted of:

Common Stock issued (561,086 shares)	\$ 7,855,000
Cash in lieu of fractional shares	2,000
Merger expenses	90,000
Investment in Congress Street	364,000
Note and interest receivable-affiliate	395,000
	\$ 8,706,000

**EB, Inc.** On April 27, 1995, the merger of Parkway Acquisition Corporation, a wholly-owned subsidiary of Parkway, with and into EB was completed. Under the terms of the merger, EB became a wholly-owned subsidiary of Parkway. Shareholders of EB, other than Parkway, received a cash payment in the amount of eight dollars (\$8.00) plus sixty-two point three one hundredths (.623) of one



Waterstone Office Building  
Atlanta, Georgia

share of Parkway common stock for each share of EB owned by them. The merger resulted in the issuance of 428,955 shares of Parkway. Prior to the merger, Parkway owned 52.3% of the outstanding shares of EB. Details of the merger transaction and the assets acquired in the merger are discussed further under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

## DESCRIPTION OF OPERATIONS

Parkway is currently engaged in the management of its existing office building portfolio, as well as the management and/or sale of its other assets, consisting of real estate properties, mortgage loans and securities of other real estate companies. Through Eastover Realty, a wholly-owned subsidiary, Parkway is also involved in the management of commercial and multi-family residential properties for which it receives management fees. Eastover Realty currently manages and leases a portfolio of 1,534,000 square feet of office space. Eastover Realty also performs brokerage services on a commission basis. Parkway is actively seeking new investments that meet the criteria set forth in the investment strategy. In pursuing this strategy, Parkway purchased three office building investments, totalling 442,000 square feet of net rentable area during 1995 and one office building investment representing 161,000 net rentable square feet in March 1996. These new investments are discussed in greater detail elsewhere in this report.

Parkway currently has 35 employees, including its seven salaried officers. This includes 12 employees which are reimbursed by office buildings managed by Eastover Realty.

## DESCRIPTION OF PROPERTIES

The operations of the Company are conducted from approximately 12,100 square feet of office space located at 188 East Capitol Street, 300 One Jackson Place, Jackson, Mississippi. The space is owned by One Jackson Place, Ltd., an affiliate of Parkway, and is leased by Parkway at market rental rates. Approximately 40% of the space currently leased by the Company is occupied by EastGroup. The Company is reimbursed by EastGroup for its pro rata share of the expenses related to the lease of office space. Parkway also leases 1,006 square feet of office space in Houston, Texas.

## INVESTMENTS IN REAL ESTATE

Parkway principally invests in office buildings, but may acquire other types of real estate in connection with the merger or acquisition of other real estate companies or the buyout of its minority interest participants on existing investments. Property acquisitions in 1995 and through March 15, 1996, were made with existing cash reserves, bank borrowings and funds made available by the sale of real estate and securities and the collection of mortgage notes receivable. Following the acquisition of office building investments, the Company has applied, and proposes to continue to apply, for fixed rate, non-recourse financing at fully-amortizing terms ranging from 12 to 15 years. The Company is generally seeking mortgages for approximately 70 percent (70%) or less of a property’s value.

The Company is seeking new office building investments in the southern United States, but is not limited to any specific geographical region. Following the office building acquisition made in March 1996, the Company has nine (9) office building

investments comprising 996,000 square feet of office space in six (6) states with an average carrying value of \$60.73 per net rentable square foot. As of March 15, 1996, 66% of the Company's office building investments were located in Jackson, Mississippi, 13% in Atlanta, Georgia, 12% in Houston, Texas, 4% in Indianapolis, Indiana, 3% in New Orleans, Louisiana and 2% in Columbus, Ohio. Through Eastover Realty, the Company directly manages the office buildings in Jackson and contracts with unrelated third party companies to manage the day-to-day operations of and provide leasing services to the remaining office buildings.

## DESCRIPTION OF REAL ESTATE AND OPERATING DATA

### OFFICE BUILDINGS

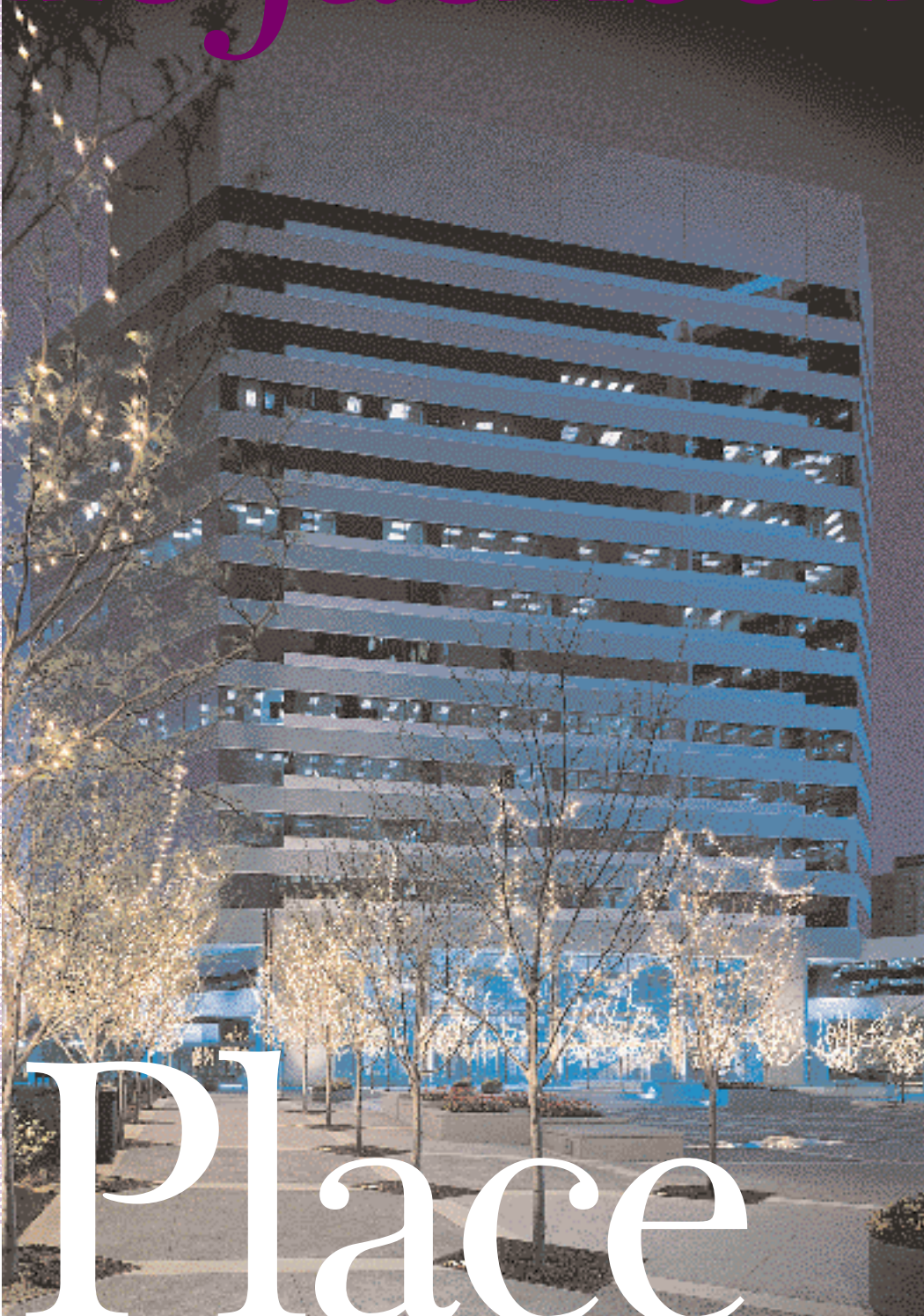
The Company intends to hold its portfolio of office buildings, individually discussed below, for investment purposes. Unless otherwise noted, the Company does not propose any program for the renovation, improvement or development of any of the office buildings, except as called for under the renewal of existing leases or the signing of new leases. All such tenant improvements are expected to be financed by cash flow from the property. Parkway, or a 100% owned subsidiary of Parkway, holds fee simple title to the entire property, unless noted otherwise. In the opinion of management, all properties are adequately covered by insurance. All office building investments compete with other office buildings located within the same submarket.

**ONE JACKSON PLACE.** This 14-story Class A office building was built in 1986, was 100% leased at March 15, 1996 and competes with other office buildings in the central business district of Jackson, Mississippi. Parkway has a 73.125% effective interest in the building through its general partnership interest in One Place Partners, a Mississippi general partnership. One Place Partners has a general partnership interest in Jackson Place Investments, a Texas general partnership, equivalent to 73.125% of this office building. Because the Company has majority voting control over the building, the operations of the building have been consolidated in the financial statements of the Company.

One Jackson Place has a total rentable area of approximately 218,000 square feet with the average effective annual rental per square foot of \$17.42. At December 31, 1995, two tenants occupied 10% or more of the rentable square footage of the building. One tenant occupies 22,721 square feet of office space, or 10.42% of the rentable square footage, and provides legal services, primarily to corporate clients. This lease expires in February 1997 and is at a market rental rate. A second tenant occupies 27,434 square feet of office space, or 12.58% of the rentable square footage, and provides services in the telecommunications industry. This lease expires in June 1997 and is at a market rental rate. The principal tenants in the building are professional services firms, including communications, legal, accounting, advertising and investment brokerage firms.



# One Jackson



# Place

The Jackson, Mississippi Central Business District Class A and B office submarket consists of 12 buildings totalling 2,201,000 square feet. At March 15, 1996, the submarket was 97% leased at an average rental rate of \$15.63. There are currently no Class A office properties under construction in the downtown business district.

#### LEASES EXPIRING

Year ending December 31	Number	Square feet	Minimum annual rents	Percentage of gross annual rents
1996	11	50,628	\$ 875,000	23.11%
1997	8	71,712	1,254,000	33.15%
1998	4	35,569	603,000	15.95%
1999	3	10,435	172,000	4.54%
2000	2	22,446	370,000	9.77%
2001	1	15,248	263,000	6.95%
2006	1	11,237	247,000	6.53%

Depreciation is computed using the straight-line method over their estimated useful lives. Below is a schedule of the estimated useful lives and federal tax basis of the One Jackson Place office building.

	Life	Tax Basis
Land	-	\$1,799,000
Building and improvements	40 yrs.	8,001,000
Equipment, furniture and fixtures	5 yrs.	22,000
Tenant improvements	lease term	2,875,000

Real estate taxes paid for 1995 and 1994 were \$362,000 and \$360,000, respectively.

In October 1995, the Company refinanced the \$22,404,000 first mortgage on this investment. The partnership owning this building made a principal payment of \$4,004,000 to the lender in return for a reduction in the interest rate from 9.25% to 7.85% and an extension of the maturity date. The \$18,400,000 non-recourse first mortgage has a fixed rate of 7.85% and a 20-year amortization period. The loan matures November 10, 2010 when the balance of the note will be approximately \$7,532,000.





# Mtel

**MTEL CENTRÉ** Mtel Centr  is an office building complex consisting of approximately 260,000 net rentable square feet in two buildings and 130 parking spaces located in the central business district of Jackson, Mississippi. The buildings were purchased in July 1995 from the Resolution Trust Corporation as receiver for Security Federal Savings and Loan Association for \$13,500,000. The buildings were constructed in the 1950's and were completely renovated in 1986 at an estimated cost of \$20,000,000.

Mtel Centr  has an average effective annual rental rate per square feet of \$14.23. The buildings were 99% leased at March 15, 1996. At December 31, 1995, two tenants occupied 10 percent or more of the rentable square footage of the building. One tenant occupies 34,344 square feet or 13.21% of the total net rentable square footage, and provides legal services, primarily to corporate clients. This lease expires in June 2003 and is at a market rental rate. Mobile Telecommunications Technologies Corp. (Mtel), a service provider in the telecommunications industry, occupies 149,515 square feet under multiple leases or 56.95% of the total net rentable square footage. These leases expire in July 2005. In connection with the acquisition of the building, Mtel signed a lease for 122,000 square feet of space at an annual rental rate of \$12.50 per square foot. Subsequent leases with Mtel are at market rental rates. Other principal tenants in the building are professional services firms, including legal, accounting, banking and oil services firms.

Mtel Centr  competes in the same business district as One Jackson Place , discussed previously.

## LEASES EXPIRING

Year ending December 31	Number	Square feet	Minimum annual rents	Percentage of gross annual rents
1996	3	17,716	\$ 274,000	8.26%
1997	2	10,435	154,000	4.64%
1998	3	7,757	124,000	3.74%
1999	1	173	3,000	.09%
2000	1	9,690	155,000	4.67%
2001	2	22,844	384,000	11.58%
2003	1	34,344	567,000	17.10%
2005	1	149,515	1,655,000	49.92%



# Centré

A photograph of a modern glass skyscraper at dusk. The building's facade is composed of a grid of dark, reflective panels that mirror the sky and the surrounding urban environment. Several windows are illuminated from within, showing warm interior lights. In the foreground, a street with a traffic light and a street lamp is visible. The street lamp is on, casting a bright glow. A red car is parked on the right side of the street. The overall scene is a blend of modern architecture and urban life.





Waterstone Office Building  
Atlanta, Georgia



Depreciation is computed using the straight-line method over their estimated useful lives. Below is a schedule of the estimated useful lives and federal tax basis of Mtel Centr  office building.

	Life	Tax Basis
Land	-	\$ 1,360,000
Building and improvements	40 yrs.	12,281,000
Equipment, furniture and fixtures	5 yrs.	21,000
Tenant improvements	lease term	6,000

Real estate taxes paid for 1995 were \$395,000.

In December 1995, the Company obtained an \$11,000,000 non-recourse first mortgage on Mtel Centr  at a fixed rate of 7.75% and a 12-year, fully amortizing term. The loan matures January 1, 2008.

**WATERSTONE** Waterstone is a four-story Class A office building built in 1987 located approximately one mile from the Atlanta Hartsfield International Airport in Atlanta, Georgia. It consists of approximately 92,000 square feet of net rentable area and 361 surface parking spaces. The building was purchased in December 1995 from an insurance company for \$8,031,000. As of March 15, 1996, the building is 94% leased to 13 tenants.

Subsequent to December 31, 1995, the Company applied for a non-recourse, fixed rate first mortgage covering approximately 70% of the purchase price of this property.



# Waterstone





One



**ONE PARK 10 PLAZA** One Park 10 Plaza is an eight-story Class A office building built in 1982 located in the Katy Freeway/Energy Corridor submarket of Houston, Texas. The building consists of approximately 161,000 square feet of net rentable area and 609 parking spaces in a four-level attached parking garage. The building was purchased in March 1996 from an insurance company for

# Park 10 Plaza

\$6,700,000. As of March 15, 1996, the building is 89% leased to 28 tenants. The Company intends to apply for a non-recourse, fixed rate first mortgage during 1996.

**IBM BUILDING** The IBM Building is a four-story brick office building built in 1985 located in northeast Jackson, Mississippi. The building consists of approximately 90,000 square feet of net rentable area and 362 surface parking spaces. The building was purchased in October 1995 from an unrelated real estate company for \$6,500,000. As of March 15, 1996, the building is 94% leased to 13 tenants. In February 1996, the

Company secured a \$4,800,000 non-recourse, first mortgage on the building at a fixed rate of 7.70% and 15-year, fully amortizing term. The loan matures March 1, 2011.

**CORPORATE SQUARE WEST** This office center consists of approximately 95,000 square feet of rentable office space located in Indianapolis, Indiana. The center, which was completed in 1970, consists of four “L” shaped one-story buildings located on 9.5 acres. The center was 96% leased at March 15, 1996, and is not subject to a mortgage.



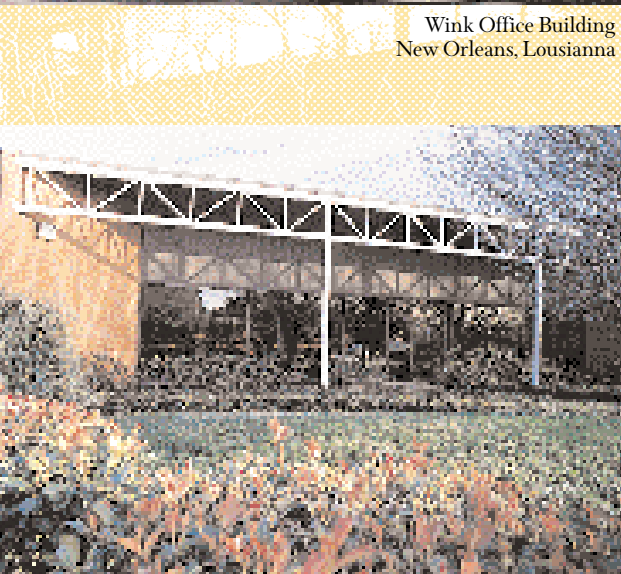




IBM Office Building  
Jackson, Mississippi



Wink Office Building  
New Orleans, Louisiana



West Office Building  
Houston, Texas

**CASCADE III** Cascade III is a two-story office building located in Worthington, a suburb of Columbus, Ohio. The building was completed in 1978 and contains approximately 25,000 square feet of rentable office space. The office building was 86% leased at March 15, 1996, and is not subject to a mortgage.

**WEST OFFICE BUILDING** This 22,000 square foot single-story office building is located in Houston, Texas. This building, completed in 1984, was 100% leased to one tenant at March 15, 1996, and is not subject to a mortgage.

**WINK OFFICE BUILDING** This 33,000 square foot office/warehouse building located in New Orleans, Louisiana, is owned by the Wink-Parkway Partnership, a partnership that is owned 50% each by Parkway and Wink Engineering. At March 15, 1996, the building was 100% leased, of which Wink Engineering occupied 96% on a 15-year net lease. This 50% ownership was purchased by the Company on June 15, 1994. The investment is accounted for on the equity method of accounting as an investment in real estate partnership.

## REAL ESTATE HELD FOR SALE

In addition to its core investments in office buildings, the Company also has a portfolio of land and other operating properties that it is currently holding for sale. In December 1995, the Company's Board of Directors adopted an investment strategy that more specifically focused on office building investments and decided to judiciously sell operating properties that did not meet this product type. The operating properties in this category were acquired in the April 27, 1995 merger of EB and the May 10, 1994 merger of First Continental and are individually discussed below.

None of the real estate held for sale is subject to mortgage debt at December 31, 1995.

**THE CLUB AT WINTER PARK** The Club at Winter Park is a 180-unit apartment complex in Winter Park, Florida, a suburb of Orlando. Parkway acquired a 40% interest in this property through the merger with EB. In December 1995, the Company purchased an additional 44% interest from the Resolution Trust Corporation for \$1,100,000. The Company is actively pursuing the purchase of the remaining 16% interest from its participant. At March 15, 1996, the complex is 90% occupied.

**PLANTATION VILLAGE SHOPPING CENTER** This shopping center consists of approximately 57,000 square feet of rentable retail space and is located in Lake Jackson, Texas. At March 15, 1996, the center was 88% leased and was acquired through the merger with First Continental.

**OAK CREEK APARTMENTS** Oak Creek Apartments is a 212-unit apartment complex in Dallas, Texas. Parkway acquired a 40% interest in a mortgage note receivable collateralized by this property through the merger with EB. The Company acquired title to the property through foreclosure on September 5, 1995. The Company is actively pursuing the purchase of the remaining 60% interest from its two participants. At March 15, 1996, the complex is 93% occupied.

At December 31, 1995, three land investments accounted for 88% of the land held for sale. These three investments are individually discussed below.

**BULLARD ROAD** This property consists of 80 acres of undeveloped commercial land in New Orleans, Louisiana, purchased in December 1990.

**SUGAR CREEK** Parkway owns one 15.4 acre and one 5.45 acre commercial tract in Sugar Creek Center,

a mixed use commercial development comprised of landscaped tracts with streets and utilities located in Sugar Land, Texas (southwest of Houston).

**SUGAR LAND TRIANGLE** At December 31, 1995, this property consists of 4 tracts totalling 6 acres located in Sugar Land, Texas. During 1995, the Company sold 21 acres of land at this location for a net sales price of \$5,719,000. The gain recognized on these sales was \$3,365,000. Parkway originally owned a 50% undivided interest in this property which it acquired in the merger with First Continental in May 1994. On September 2, 1994, the Company purchased the remaining 50% interest in this property from the Resolution Trust Corporation.

## MORTGAGE LOANS AND SECURITIES

In addition to its direct investments in real estate properties, the Company presently owns an indirect interest in real estate through its mortgage loan portfolio and its investments in real estate company securities portfolio.

The Company intends to service its existing portfolio of 174 mortgage loans and intends to make new loans only to facilitate the sale of its real estate. At December 31, 1995, the mortgage loan portfolio had a carrying value of \$11,161,000, a face value of \$29,222,000 and an estimated net realizable value of approximately \$21,000,000. As of December 31, 1995, 17 loans with a carrying value of \$172,000 and face value of \$1,443,000 were non-earning. The Company acquired 98 loans in the merger with EB, which were recorded at \$3,698,000. At the date of the merger, the loans had a principal balance of \$18,794,000 and an estimated net realizable value of \$13,945,000. Under the purchase method of accounting, the loans were recorded at significantly less than the net

realizable value. The difference between the net realizable value of the loans and the recorded balances will be amortized over the life of the loans based on principal payments received. One mortgage loan accounts for 53% of the carrying value, 55% of the face value and 44% of the net realizable value of the Company's entire portfolio of mortgage loans. This mortgage loan represents a second mortgage on the Pembroke Office Park in Virginia Beach, Virginia. This 268,000 square foot office complex is 90% leased as of March 15, 1996. The Company acquired a 40% interest in this loan through the EB merger. In December 1995, the Company acquired the remaining 60% interest in the loan from the Resolution Trust Company for approximately \$1,420,000 cash plus the assumption of 60% of the first mortgage debt. The loan is currently earning 8.58% and is scheduled to mature September 30, 1998. The loan is subject to seven underlying first mortgages on individual buildings within the complex with a balance as of December 31, 1995 of \$4,669,000, interest rates ranging from 8.75% to 9.625% and maturity dates ranging from December 1, 2002 to February 1, 2009.

The Company's portfolio of real estate company securities at December 31, 1995 consisted of a less than three percent ownership in two real estate investment trusts (REIT). The Company owned 90,575 shares (2.14%) of EastGroup Properties and 105,000 shares (1.17%) of another REIT at December 31, 1995. Both investments are accounted for under the cost method of accounting with dividends received recorded as income. The two investments in REITs are shown in the financial statements at their combined market value at December 31, 1995 of \$2,866,000.

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock, \$1.00 par value, is traded in the over-the-counter market and is listed on the NASDAQ National Market System under the symbol PKWY. The number of record holders of the Company's common stock at March 15, 1996, was 4,739.

The following table sets forth, for the periods indicated, the high and low bid prices per share of the Company's common stock as reported by NASDAQ and the per share distributions paid during each quarter.

Qtr. Ended	12 Months Ended December 31, 1995			12 Months Ended December 31, 1994		
	High	Low	Distributions	High	Low	Distributions
March 31	\$ 15.25	\$ 13.00	\$ .16	\$ 13.50	\$ 11.50	\$ .15
June 30	17.25	14.13	.16	13.25	11.00	.15
Sept. 30	20.00	15.63	.17	14.50	12.38	.15
Dec. 31	20.50	18.50	.17	15.50	13.00	.16
			\$ .66			\$ .61

## FINANCIAL CONDITION

*(Comments are for the balance sheet dated December 31, 1995 compared to the balance sheet dated December 31, 1994.)*

Total assets of The Parkway Company ("Parkway" or the "Company") were \$88,043,000 at December 31, 1995, an increase of \$26,981,000 from December 31, 1994. Liabilities increased \$10,008,000 to \$38,832,000 during the same period. Book value per share increased from \$20.62 at December 31, 1994 to \$24.51 at December 31, 1995.

The April 27, 1995 merger of Parkway Acquisition Corporation ("PAC"), a wholly-owned subsidiary of Parkway, with and into EB, Inc. ("EB") accounts for many of the balance sheet changes from December 31, 1994 as compared to December 31, 1995. The increase in net assets resulting from the merger was as follows:

Union Planters Corporation stock (637,705 shares) . . . . .	\$ 15,069,000
Cash . . . . .	8,603,000
Mortgages . . . . .	3,698,000
Operating real estate properties . . . . .	307,000
Real estate held for sale . . . . .	96,000
Interest receivable and other assets . . . . .	392,000
Mortgage notes payable on wrap mortgages . . . . .	(1,945,000)
Accounts payable and other liabilities . . . . .	(1,496,000)
	<hr/>
	\$ 24,724,000

The Company's purchase price of the net assets acquired consisted of:

Common stock issued (428,955 shares) . . . . .	\$ 6,370,000
Cash . . . . .	5,534,000
Cash in lieu of fractional shares . . . . .	14,000
Merger expenses . . . . .	353,000
Investment in EB . . . . .	12,453,000
	<hr/>
	\$ 24,724,000

The financial reporting and income tax accounting may vary considerably in a business combination. Parkway has historically used and plans to continue to use, when applicable, the purchase method of accounting for financial reporting purposes. Because mergers have such a material impact on Parkway, a brief explanation of the purchase method of accounting and its effect on Parkway is set forth below.

For financial reporting purposes, the assets of the company acquired are assigned new cost basis amounts based on the allocation of the purchase price of the assets to Parkway. In general, the purchase price to Parkway consists of the new shares issued at the market price of the Parkway stock on the date of the merger plus cash paid, if any, and the previous investment Parkway has in the company. Since Parkway stock is generally selling at a discount to book value

and the stocks of companies acquired are also generally selling at discounts to book value, the accounting results in a writedown of the assets acquired from their book value and also a decrease in book value per share of the Parkway stock. In some cases, the non-current assets, usually real estate and mortgage loans, are written down considerably from their previous book values. As the assets are sold or loans are collected, income will be recorded to the extent cash received exceeds the new written down basis.

For income tax purposes, Parkway typically receives a carryover basis in the assets purchased which is equal to the tax basis of those assets prior to the merger. In most cases, this basis is higher than book basis due to allowance for losses and writedowns that were recorded for financial reporting purposes but not tax purposes. Therefore, assets sold may generate tax losses.

In summary, if assets from merged companies are sold for their pre-merger book value, two positive things happen – (1) gains for financial reporting purposes are recorded and (2) losses for income tax purposes may be recorded, subject to certain limitations. Management believes that Parkway is positioned to record earnings without creating income tax liabilities by selling assets of the acquired companies.

During the twelve months ended December 31, 1995, real estate related investments increased a net \$20,598,000. The gross investment in office buildings increased \$27,863,000 during this time, largely due to the purchase of three Class A office building investments located in Jackson, Mississippi and Atlanta, Georgia.

On July 31, 1995, the Company purchased the Security Centr  office complex in Jackson, Mississippi from the Resolution Trust Corporation, as receiver for Security Federal Savings and Loan Association, for \$13,500,000. Upon acquisition, the buildings were renamed Mtel Centr . Mtel Centr  is an office building complex consisting of approximately 260,000 net rentable square feet in two buildings and 130 parking spaces located in the central business district of Jackson. The buildings were 96% leased at July 31, 1995 and 99% leased as of March 15, 1996. Jackson-based Mobile Telecommunications Technologies Corporation (Mtel) occupies approximately 149,515 square feet in the building under a ten-year lease that expires in July 2005.

On October 2, 1995, the Company purchased the IBM Building in Jackson, Mississippi from ICMPI (Jackson) Inc., a wholly-owned subsidiary of Bedford Property Investors, Inc., for \$6,500,000. The IBM Building is a four-story brick office building with approximately 90,000 net rentable square feet and surface parking for approximately 362 automobiles. The building was 92% leased at the purchase date and 94% leased as of March 15, 1996. In addition, on December 19, 1995, the Company purchased the Waterstone Building in Atlanta, Georgia from Massachusetts Mutual Life Insurance Company for \$8,031,000. The Waterstone Building consists of approximately



92,000 net rentable square feet with 361 parking spaces and was 94% leased at the date of purchase. The increase in office buildings due to the above three purchases totalled \$28,323,000 including capitalized expenses. Improvements to office buildings totalled \$188,000 during 1995.

Office buildings decreased due to the sale of Corporate Square East located in Indianapolis, Indiana in October 1995. This office center was sold for \$700,000 with a net basis of \$624,000 (including depreciation) and resulted in a gain of \$58,000 with net cash proceeds of \$682,000.

The decrease in other operating properties of \$2,541,000 from December 31, 1994 includes the sale of one hotel, four townhomes and four foreclosed homes with a combined basis net of depreciation of \$896,000 and the reclassification discussed below. The sales mentioned above resulted in net gains of \$579,000 with the Company receiving net cash proceeds of \$1,395,000 and a mortgage loan of \$80,000 which matures in August 2010 and has an interest rate of 7%.

At December 31, 1995, the Company reclassified its operating properties, other than office buildings, to real estate held for sale based on the adoption of an investment strategy that focuses more specifically on office building investments by the Company's Board of Directors. This investment strategy resulted in a decision to sell operating properties that do not meet this product type. Additions to other operating properties during the year included the properties received in the merger with EB totalling \$307,000, improvements of \$380,000, the foreclosure of one mortgage loan in September 1995 on a 40% interest in the Oak Creek Apartments and the purchase of an additional 44% interest in The Club at Winter Park Apartments received in the EB merger. These assets were reclassified at December 31, 1995 to real estate held for sale in accordance with the Board's decision.

Land held for sale decreased a net \$2,928,000 during the 12 months ended December 31, 1995. This net decrease includes increases of \$96,000 from real estate acquired in the EB merger offset by decreases of \$2,880,000 due to the sales of various real estate properties and writedowns of real estate held for sale to net realizable value of \$179,000.

The land held for sale acquired through the EB merger consists of six non-operating properties located in various cities in Mississippi and are being actively marketed for sale. Three mortgage loans were foreclosed during the 12 month period with capitalized costs of \$35,000. During 1995, the Company sold 36 lots, 99.53 acres of land, one foreclosed condominium and two foreclosed homes which resulted in net gains of \$4,115,000 recognized. The Company received net cash proceeds of \$6,712,000 and two mortgage receivables totalling \$330,000 from these sales. Additional gains of \$46,000 were

deferred and will be recognized as principal payments are received on the notes.

The increase in operating properties held for sale of \$3,990,000 from December 31, 1994 is due to the reclassification of assets discussed previously.

Mortgage loans increased a net \$7,558,000 during the 12 months ended December 31, 1995. The Company acquired 98 loans in the EB merger which were recorded at \$3,698,000. At the date of the merger, the loans had a principal balance of \$18,794,000 and an estimated net realizable value of \$13,945,000. Under the purchase method of accounting, which was discussed previously, the loans were recorded at significantly less than their net realizable value. The difference between the net realizable value of the loans and the recorded balances will be amortized over the life of the loans based on principal payments received. During the 12 months ended December 31, 1995, \$1,874,000 was amortized on the loans acquired in the EB merger and recorded as gain on mortgage loans. The Company received pay offs of mortgage loans acquired in the First Continental merger during the 12 months ended December 31, 1995, recognizing a gain on mortgage loans of \$161,000 related to those loans. Mortgage loans decreased \$3,038,000 due to principal payments received during the year and increased \$91,000 due to the amortization of valuations on mortgage loans. The Company also foreclosed on four mortgage loans with a net book value of \$443,000 during the 12 months ended December 31, 1995. Mortgage loans increased during this time \$410,000 due to loans made to facilitate the sales of real estate.

In the EB merger, the Company received a forty percent (40%) interest in a mortgage note receivable on an office complex in Virginia Beach, Virginia. The mortgage loan had an outstanding principal balance of \$16,113,000 at the date of merger, of which the Company's 40% interest was \$6,445,000. The Company's 40% interest in this loan was recorded at \$1,044,000. The Virginia Beach mortgage loan was subject to seven wraparound mortgages totalling \$4,862,000 at the date of the EB merger. The Company's 40% share of these wraparound mortgages of \$1,945,000 was recorded in the EB merger. The wrap-around mortgages have an average rate of 9.14% and mature on various dates beginning in December 2002. Effective December 1, 1995, the Company purchased the remaining 60% interest in the Virginia Beach mortgage loan for \$1,420,000 cash plus the assumption of 60% of the outstanding balance of the wraparound mortgages. This purchase increased mortgage loans by \$4,863,000 and increased the balance in mortgage notes payable on wrap mortgages by \$3,491,000.

The Company acquired 637,705 shares of Union Planters Corporation in the EB merger, which was recorded at the market price as quoted on the New York Stock Exchange on the date of the merger of \$15,069,000 (\$23.63 per share). The Company's investment in the common stock of EB at the date of the merger of \$12,453,000 was

eliminated through the recording of the merger. Parkway sold the Union Planters shares, 22,400 shares of EastGroup and shares of other investments in real estate company securities having a combined basis of \$15,785,000 during the 12 months ended December 31, 1995. Total cash proceeds from the sales were \$20,100,000 and net gains of \$4,314,000 were recorded.

The Company received dividends of \$76,000 from its investment in EB prior to the April 27, 1995 merger date. Also during the 12 months ended December 31, 1995, the Company recorded equity in earnings from its investment in EB through the date of merger of \$135,000, recorded net decreases in unrealized gains on securities of \$78,000 and purchased 105,000 shares of a real estate company stock at a cost of \$992,000.

The net decrease in real estate partnerships and corporate joint venture for the 12 months ended December 31, 1995 was \$204,000. The Company recorded equity in earnings of real estate partnerships and corporate joint venture of \$116,000 and received distributions of \$318,000 during the period.

Interest and rents receivable and other assets increased \$659,000 during the 12 months ended December 31, 1995. The Company recorded \$392,000 in receivables and other assets as a result of the EB merger. Other increases in receivables and other assets were the result of normal business operations.

Notes payable to banks decreased a net \$4,154,000 reflecting advances of \$19,344,000 and payments of \$23,008,000 under bank lines of credit and payments of \$490,000 on other bank debt. At December 31, 1995, no amounts were outstanding on the Company's lines of credit. The decrease in other bank debt of \$490,000 includes scheduled principal payments of \$225,000 and a prepayment of \$265,000 on a note scheduled to mature in June 1996.

Mortgage notes payable without recourse increased a net \$6,509,000 during the 12 months ended December 31, 1995. Decreases to mortgage notes payable without recourse includes scheduled principal payments of \$118,000, the prepayment of \$305,000 on a note scheduled to mature in June 1996 and principal reductions of \$4,068,000 on the One Jackson Place mortgage. The increase in mortgage notes payable without recourse is due to the long-term financing placed on Mtel Centr   of \$11,000,000 on December 29, 1995. This note is a 12 year fully amortizing loan with a fixed interest rate of 7.75% and maturing in January 2008.

The increase in mortgage notes payable on wrap mortgages of \$5,368,000 includes increases of \$1,945,000 due to the merger with EB, Inc., decreases of \$68,000 due to principal payments made subsequent to the merger and an increase of \$3,491,000 due to the

purchase of the remaining 60% interest in the Virginia Beach loan in December 1995 discussed previously.

Accounts payable and other liabilities increased \$2,271,000 during the 12 months ended December 31, 1995. Of this amount, \$1,496,000 was recorded in the EB merger. Other increases in accounts payable and other liabilities were the result of normal business operations.

Shareholders' equity increased \$16,973,000 during the comparison period as a result of the following (in thousands):

	Increase (decrease)
Net income . . . . .	\$ 11,820
Dividends declared and paid . . . . .	(1,249)
Decrease in unrealized gains . . . . .	(78)
Shares issued in EB merger . . . . .	6,370
Purchase/retirement of treasury shares . . . . .	(118)
Exercise of stock options . . . . .	228
	<u>\$ 16,973</u>

## RESULTS OF OPERATIONS

*(Comments are for the 12 months ended December 31, 1995 compared to the six months ended December 31, 1994 and 12 months ended June 30, 1994.)*

The Company changed its fiscal year end from a June 30 (fiscal year) to December 31 as of December 31, 1994. As a result, the comparative information given below includes the 12 months ended December 31, 1995, the six months ended December 31, 1994 and the 12 months ended June 30, 1994.

Operations of real estate properties are summarized below (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Income from real estate properties . . . . .	<b>\$ 8,941</b>	\$ 3,683	\$ 6,429
Real estate operating expense . . . . .	<b>(4,876)</b>	(1,951)	(3,760)
	<b>4,065</b>	1,732	2,669
Interest expense on real estate properties . . . . .	<b>(2,230)</b>	(1,078)	(2,392)
Depreciation and amortization . . . . .	<b>(1,331)</b>	(565)	(1,022)
Minority interest . . . . .	<b>100</b>	209	542
	<b>\$ 604</b>	\$ 298	\$ (203)

The increase in income from real estate properties and real estate operating expense for the 12 months ended December 31, 1995 is primarily due to the July 1995 purchase of the Mtel Centr  office complex, the October 1995 purchase of the IBM Building and the December 1995 purchase of the Waterstone Building, offset by the August 1995 sale of the American Inn North Motel and the October 1995 sale of the Corporate Square East Office Building.

The effect on the Company's operations related to One Jackson Place (which have been included in the numbers above) follows (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Revenues . . . . .	<b>\$ 3,789</b>	\$ 1,762	\$ 3,517
Operating expenses . . . . .	<b>(1,439)</b>	(678)	(1,463)
Interest expense . . . . .	<b>(1,931)</b>	(1,036)	(2,072)
Depreciation . . . . .	<b>(896)</b>	(459)	(887)
Minority interest income . .	<b>100</b>	209	542
Net loss . . . . .	<b>\$ (377)</b>	\$ (202)	\$ (363)

The effect on the Company's operations related to Mtel Centr  (which have been included in the numbers above) follows (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Revenues . . . . .	<b>\$ 1,464</b>	\$ —	\$ —
Operating expenses . . . . .	<b>(722)</b>	—	—
Interest expense . . . . .	<b>(252)</b>	—	—
Depreciation . . . . .	<b>(130)</b>	—	—
Net income . . . . .	<b>\$ 360</b>	\$ —	\$ —

The increase in interest on mortgage loans for the 12 months ending December 31, 1995 compared to the six months ending December 31, 1994 and 12 months ending June 30, 1994 is due primarily to interest income on loans received in the mergers with EB, Inc. in April 1995 and FCREIT in May 1994. The interest on mortgage loans recognized for the 12 months ending December 31, 1995 totalled \$884,000 for the EB loans and \$280,000 for the FCREIT loans. Also contributing to this increase was interest recorded on mortgage loans made during the last fiscal year in connection with the sales of real estate.

The gain on real estate and mortgage loans for the 12 months ended December 31, 1995 of \$6,552,000 includes net gains on the sale of real estate of \$4,752,000, gains of \$2,035,000 due to payoffs and payments

on mortgage loans acquired in the EB, Inc. and FCREIT mergers and writeoffs on mortgage loans of \$56,000. During the 12 months ending December 31, 1995, the Company sold 36 lots, 99.53 acres of raw land, four townhomes, six foreclosed houses and one foreclosed condominium having gains of \$4,752,000. The Company also recorded writedowns to real estate of \$179,000 reflecting declines in current market values as evidenced by contracts, appraisals and other comparable sales.

The gain on securities of \$4,314,000 for the 12 months ended December 31, 1995 is due to the sale of 637,705 shares of Union Planters stock for \$19,244,000 with a basis of \$15,069,000, 22,400 shares of EastGroup stock for \$457,000 with a basis of \$317,000 and other investments in real estate company securities for \$399,000 with a basis of \$399,000.

Gain on securities of \$27,000 in the six months ended December 31, 1994, represent the sale of an investment in a real estate investment trust for \$340,000 with a net basis of \$313,000. The gain of securities of \$579,000 in the 12 months ended June 30, 1994 represented the sale of 58,525 shares of EastGroup for \$1,152,000 with a gain of \$337,000 and other stock investments for \$504,000 with gains of \$242,000.

Equity in earnings of real estate companies consists of the following (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
EB, Inc. . . . .	<b>\$ 135</b>	\$ 618	\$ 388
EastGroup . . . . .	—	77	443
FCREIT . . . . .	—	—	(9)
Congress Street . . . . .	—	(14)	(67)
	<b>\$ 135</b>	\$ 681	\$ 755

Prior to December 31, 1994, Parkway accounted for its investment in EastGroup using the equity method of accounting because of the presence of three members of EastGroup's Board of Trustees who were also directors of Parkway and management of the day-to-day business of Parkway by officers who were also officers of EastGroup. Effective December 31, 1994, Parkway and EastGroup no longer share joint officers or directors, with the exception of the Chairman of the Board and one other director. Parkway began reporting its investment in EastGroup using the cost method of accounting on January 1, 1995 due to its ownership percentage of 2.7% at that date and the lack of control over its operations.

Since May of 1994, the Company has completed three mergers with prior equity method investees: 1) First Continental Real Estate

Investment Trust (May 1994); 2) Congress Street Properties, Inc. (November 1994) and; 3) EB, Inc. (April 1995). These mergers also account for the decrease in equity in earnings of real estate companies.

Equity in operations of real estate partnerships and corporate joint venture consists of the following (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Golf Properties, Inc. . . . .	\$ 80	\$ 166	\$ 233
Wink/Parkway Partnership . . . . .	36	29	—
GV Partners . . . . .	—	—	6
	<b>\$ 116</b>	<b>\$ 195</b>	<b>\$ 239</b>

Dividend income for the 12 months ended December 31, 1995 totalled \$601,000. This increase is due in part to the Union Planters Corporation dividends received subsequent to the merger with EB, Inc. on April 27, 1995 of \$353,000. The increase in dividend income is also due to the change in accounting for EastGroup Properties from the equity method of accounting to the cost method effective January 1, 1995. All dividends received from EastGroup Properties have been accounted for as dividend income in the 12 months ending December 31, 1995 and totalled \$189,000. Other increases in dividend income are due to new investments in dividend-paying real estate companies.

The gain on sale of real estate partnership of \$280,000 during the 12 months ended June 30, 1994 represents the sale of the Company's 22% investment in a partnership to the 78% partner, EastGroup Properties. The sales price was \$275,000 in cash plus the assumption of 22% of the outstanding mortgage and was based on an appraisal by an independent third party.

Interest expense of \$156,000 for the 12 months ending December 31, 1995 is due to borrowings under bank lines of credit. Interest expense on wrap mortgages of \$135,000 for the 12 months ending December 31, 1995 represents interest on the debt received in the merger with EB, Inc.

The Company recorded management company income of \$1,041,000 and management company expenses of \$804,000 in 1995 through Eastover Realty, a wholly-owned subsidiary acquired in the merger of Congress Street Properties, Inc. into Parkway Congress Corporation. Eastover Realty offers full-service leasing, management, construction and brokerage services.

Through December 31, 1994, the Company was a party to an expense-sharing agreement whereby certain general and administrative expenses were paid by the administrator of the agreement and then allocated on a monthly basis among the participants, as defined. Congress Street Properties, Inc. administered this agreement through the date of its merger with Parkway and received no income for the administration of the agreement. The agreement called for the income of Eastover Realty to be netted against the costs of the shared expenses before allocation to the participants. This was done through December 31, 1994, the termination date of the agreement. Effective January 1, 1995, the Company terminated the expense-sharing agreement and the income of Eastover Realty is now included in the operations of the Company as management company income and expenses. As a result of the termination of the expense-sharing agreement, there were no shared general and administrative expenses during the 12 months ending December 31, 1995. The increase in other expenses of \$1,637,000 reflects primarily the general and administrative expenses paid previously through the expense-sharing agreement in addition to increases as a result of the mergers of FCREIT, Congress Street Properties, Inc. and EB, Inc.

Total tax expense of \$82,000 for the 12 months ending December 31, 1995 represents alternative minimum tax of \$70,000 and state income taxes of \$12,000.

## LIQUIDITY AND CAPITAL RESOURCES

Funds provided by operations, mortgage loan payments, bank borrowings, proceeds from the sale of investments in real estate and financial service securities, sales of real estate properties and proceeds from long term financing were the primary sources of funds for the Company during the 12 months ended December 31, 1995. In addition, the Company received a net \$2,702,000 from the merger with EB, Inc. This is discussed in more detail elsewhere in "Liquidity and Capital Resources." Funds provided by these sources and cash balances were sufficient to cover repayment of long-term debt and bank debt, dividends paid to shareholders, purchases of stock of other real estate companies, improvements to real estate properties, new real estate investments and the payment of operating expenses. At December 31, 1995, the Company had available \$6,044,000 in cash and short-term investments. Management believes that funds generated from operations, borrowings on lines of credit and cash on hand will be sufficient to cover long and short-term operating cash requirements.

On April 27, 1995, the merger of Parkway Acquisition Corporation, a wholly-owned subsidiary of Parkway, with and into EB, Inc. was completed. Under the terms of the merger, EB, Inc. became a wholly-owned subsidiary of Parkway. Shareholders of EB, Inc., other than Parkway, received a cash payment in the amount of eight dollars (\$8.00) plus sixty-two point three one hundredths (.623) of one share



of Parkway common stock for each share of EB, Inc. owned by them. The merger resulted in a total of approximately \$5,548,000 being disbursed to EB, Inc. shareholders. At April 27, 1995, EB, Inc. had \$8,603,000 in cash and cash equivalents which were used to make these payments. Parkway incurred \$353,000 of expenses in completing the merger. As a result, Parkway recorded a net increase in cash and cash equivalents of \$2,702,000 from the merger. Parkway issued 428,955 shares of common stock to EB shareholders.

At December 31, 1995, the Company had one line of credit with Deposit Guaranty National Bank at an amount equal to sixty-five (65%) of the quoted market value of certain pledged securities, not to exceed \$10,000,000 (the "\$10,000,000 line of credit"). The note has an interest rate of the London Interbank Offered Rate (LIBOR) quoted for a 90-day period plus 1.85%. Interest payments on the note are due monthly with a fixed maturity on September 30, 1996. At December 31, 1995, no amount was outstanding on the line of credit.

On July 31, 1995, the Company acquired the Security Centr  office complex in Jackson, Mississippi from the Resolution Trust Corporation, as receiver for Security Federal Savings and Loan Association, for \$13,500,000. Upon acquisition, the buildings were renamed Mtel Centr . Mtel Centr  is an office building complex consisting of 260,000 net rentable square feet in two buildings and 130 parking spaces located in the central business district of Jackson. The Company substantially funded the acquisition with cash balances of \$4,270,000 and \$8,740,000 drawn under two lines of credit with Deposit Guaranty National Bank. In addition to the line of credit discussed previously, Deposit Guaranty National Bank extended the Company an additional \$2,000,000 Line of Credit for the purpose of purchasing Mtel Centr . The line of credit had the same terms as the \$10,000,000 line of credit with the exception of the maturity date, which was August 15, 1995. On September 19, 1995, the Company received funding of \$10,000,000 on a term loan from Deposit Guaranty National Bank which was secured by the investment in Mtel Centr . The note accrued interest at the bank's prime rate, with interest payments due monthly and principal due upon maturity on February 5, 1997. Proceeds from the term loan were used to repay amounts outstanding under the two lines of credit. The Company received funding on December 29, 1995 from a life insurance company for \$11,000,000 non-recourse, 12-year, fully amortizing financing on the building at a rate of 7.75%. Cash flows from the operation of the building are expected to fully cover debt service on the long-term financing. The proceeds were used to repay the \$10,000,000 term loan to Deposit Guaranty.

On October 2, 1995, the Company purchased the IBM Building in Jackson, Mississippi from ICMPI (Jackson), Inc., a wholly-owned subsidiary of Bedford Property Investors, Inc., an unrelated party, for \$6,500,000. The IBM Building is a four-story brick office building with approximately 90,000 square feet of rentable area and surface

parking for approximately 362 automobiles. The \$6,500,000 purchase price was funded with existing cash reserves. Cash proceeds from the \$10,000,000 term loan discussed previously contributed to the cash reserves used to purchase the IBM Building. In February 1996, the Company received the funding of a \$4,800,000 non-recourse, 15-year, fully amortizing loan from a life insurance company on the building at a rate of 7.70%.

On October 10, 1995, the partnership that owns One Jackson Place made a principal payment of \$4,004,000 on the One Jackson Place office building mortgage note payable without recourse. This payment was made in connection with the refinancing of this loan with New York Life which was completed in January 1996. The terms of the new loan agreement were implemented October 10, 1995. The 15-year, \$18,400,000 non-recourse loan calls for monthly principal and interest payments of \$152,000 based on a 20-year amortization schedule, interest at 7.85% and maturity on October 10, 2010. Prior to the refinancing, the \$22,404,000 mortgage note had an interest rate of 9.25%, required monthly interest payments of \$173,000 through April 1996 and matured in April 1999.

On March 7, 1996, the Company purchased the One Park 10 Plaza Building in Houston, Texas from an insurance company for \$6,700,000. One Park 10 Plaza is an eight-story Class A building with 609 parking spaces. Funds received from the financing of the IBM Building, along with existing cash reserves, were used to purchase the building.

Subsequent to year-end, the Company acquired a \$20,000,000 acquisition line of credit with Deposit Guaranty National Bank and replaced the \$10,000,000 line of credit discussed previously with a \$5,000,000 line of credit. The Company plans to continue actively pursuing the purchase of office building investments that meet the Company's investment criteria and intends to use these lines of credit to fund those acquisitions. Both lines of credit have an interest rate equal to the 90-day LIBOR rate plus 2.35% (adjusted quarterly), interest due monthly and commitment fees of .125% due upon acceptance. In addition, both lines of credit have fees of .125% on the unused balances due quarterly. The acquisition line of credit matures June 30, 1998 and the \$5,000,000 line of credit matures June 30, 1997.

As previously discussed, the Company plans to continue actively pursuing the purchase of office building investments. In doing so, funding on the acquisition line of credit will be necessary in the short-term. The Company also intends to continue seeking long-term financing on new investments. Proceeds from long-term financing will be used to repay the acquisition line debt.

Shareholders and Board of Directors  
The Parkway Company

We have audited the accompanying consolidated balance sheets of The Parkway Company and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 1995 and June 30, 1994 and the six months ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of EB, Inc. and EastGroup Properties (investees in which the Company had a 52.3%, and 2.7% interest at December 31, 1994, respectively), have been audited by other auditors whose reports have been furnished to us; our opinion on the consolidated financial statements for the six months ended December 31, 1994 and the year ended June 30, 1994, insofar as it relates to data included for EB, Inc. for its years ended December 31, 1994 and 1993; and EastGroup Properties for its years ended December 31, 1994 and 1993; is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Parkway Company and subsidiaries at December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for the years ended December 31, 1995 and June 30, 1994 and the six months ended December 31, 1994 in conformity with generally accepted accounting principles.

Ernst & Young LLP

Jackson, Mississippi  
March 25, 1996

CONSOLIDATED BALANCE SHEETS

The Parkway Company

	December 31	
	1995	1994
	(In thousands)	
ASSETS		
Real estate related investments		
Office buildings . . . . .	\$ 59,406	\$31,543
Other operating properties . . . . .	—	2,541
Accumulated depreciation . . . . .	(7,122)	(6,177)
	52,284	27,907
Real estate held for sale		
Land . . . . .	8,441	11,369
Operating properties . . . . .	3,990	—
Mortgage loans . . . . .	11,161	3,603
Real estate securities . . . . .	2,866	15,061
Real estate partnerships and corporate joint venture . . . . .	685	889
	79,427	58,829
Interest and rents receivable and other assets . . . . .	2,572	1,913
Cash and cash equivalents . . . . .	6,044	320
	\$ 88,043	\$61,062
LIABILITIES		
Notes payable to banks . . . . .	\$ —	\$ 4,154
Mortgage notes payable without recourse . . . . .	29,336	22,827
Mortgage notes payable on wrap mortgages . . . . .	5,368	—
Accounts payable and other liabilities . . . . .	3,834	1,563
Deferred gain . . . . .	294	280
	38,832	28,824
SHAREHOLDERS' EQUITY		
Common stock, \$1.00 par value, 10,000,000 shares authorized, 2,007,658 and 1,563,308 shares issued in 1995 and 1994, respectively . . . . .	2,008	1,563
Additional paid-in capital . . . . .	32,882	26,847
Retained earnings . . . . .	13,729	3,158
	48,619	31,568
Unrealized gain on securities . . . . .	592	670
	49,211	32,238
	\$ 88,043	\$61,062

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

The Parkway Company

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
<i>(In thousands, except per share data)</i>			
REVENUES			
Income from real estate properties . . . . .	\$ 8,941	\$ 3,683	\$ 6,429
Interest on mortgage loans . . . . .	1,421	283	265
Management company income . . . . .	1,041	—	—
Equity in earnings			
Real estate companies . . . . .	135	681	755
Real estate partnerships and corporate joint venture . . . . .	116	195	239
Interest on investments . . . . .	167	18	235
Dividend income . . . . .	601	10	7
Deferred gains and other income . . . . .	345	36	331
Gain (loss) on real estate and mortgage loans . . . . .	6,552	529	(113)
Gain on securities . . . . .	4,314	27	579
Gain on sale of real estate partnership . . . . .	—	—	280
	<b>23,633</b>	<b>5,462</b>	<b>9,007</b>
EXPENSES			
Real estate owned			
Operating expense . . . . .	4,876	1,951	3,760
Interest expense . . . . .	2,230	1,078	2,392
Depreciation and amortization . . . . .	1,331	565	1,022
Minority interest . . . . .	(100)	(209)	(542)
Interest expense			
Notes payable to banks . . . . .	156	140	—
Notes payable on wrap mortgages . . . . .	135	—	—
Management company expenses . . . . .	804	—	—
Shared general and administrative expenses . . . . .	—	270	502
Other expenses . . . . .	2,299	662	569
	<b>11,731</b>	<b>4,457</b>	<b>7,703</b>
INCOME BEFORE INCOME TAXES . . . . .	<b>11,902</b>	<b>1,005</b>	<b>1,304</b>
Income tax provision . . . . .	82	—	1
NET INCOME . . . . .	<b>\$ 11,820</b>	<b>\$ 1,005</b>	<b>\$ 1,303</b>
NET INCOME PER SHARE . . . . .	<b>\$ 6.36</b>	<b>\$ .65</b>	<b>\$ 1.00</b>
WEIGHTED AVERAGE SHARES OUTSTANDING . . . . .	<b>1,858</b>	<b>1,544</b>	<b>1,300</b>
DIVIDENDS PAID PER SHARE . . . . .	<b>\$ .66</b>	<b>\$ .31</b>	<b>\$ .65</b>

See notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

The Parkway Company

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
OPERATING ACTIVITIES		<i>(In thousands)</i>	
Net income	\$ 11,820	\$ 1,005	\$ 1,303
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings	(251)	(876)	(994)
Dividends received	76	250	332
Distributions from operations of real estate partnerships and corporate joint venture	318	327	543
Depreciation and amortization	1,331	565	1,022
Amortization of discounts, deferred gains and other	(141)	(56)	(318)
Gain on sale of real estate partnership	—	—	(280)
(Gain) loss on real estate and mortgage loans	(6,552)	(529)	113
Gain on securities	(4,314)	(27)	(579)
Minority interest depreciation	(206)	(233)	(535)
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	(194)	(277)	46
Increase in accounts payable and accrued expenses	768	763	668
CASH PROVIDED BY OPERATING ACTIVITIES	2,655	912	1,321
INVESTING ACTIVITIES			
Payments received on mortgage loans	3,038	310	269
Purchases of investments in real estate companies	(992)	(399)	(7,468)
Purchase of real estate properties	(29,568)	(1,502)	(66)
Purchase of mortgage loans	(1,420)	—	(907)
Proceeds from sale of real estate partnership owned	—	—	296
Release of restricted cash	—	—	165
Proceeds from sale of real estate owned	8,789	1,223	100
Proceeds from sale of investments in real estate companies	20,100	340	1,656
Improvements to real estate owned	(728)	(190)	(380)
Purchase of real estate partnership interest	—	—	(291)
Proceeds from merger of EB, Inc. (net)	2,702	—	—
Proceeds from merger of First Continental (net)	—	—	25
Proceeds from merger of Congress Street (net)	—	(48)	—
Payments on notes receivable from affiliates	—	49	135
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,921	(217)	(6,466)
FINANCING ACTIVITIES			
Principal payments on mortgage notes payable	(4,559)	(102)	(867)
Proceeds from borrowings on mortgage notes payable	11,000	—	—
Proceeds from bank borrowings	19,344	3,714	6,296
Principal payments on bank borrowings	(23,498)	(3,191)	(5,517)
Payments on note payable to affiliate	—	—	(2,274)
Stock options exercised	228	(535)	(4)
Dividends paid	(1,249)	(478)	(819)
Purchase and retirement of treasury shares	(118)	—	—
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,148	(592)	(3,185)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,724	103	(8,330)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	320	217	8,547
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,044	\$ 320	\$ 217

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

The Parkway Company

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Unrealized Gain (Loss) On Securities	Total
<i>(In thousands)</i>						
BALANCE,						
JUNE 30, 1993 . . . . .	\$ 2,333	\$ 39,271	\$ 1,899	\$ (16,320)	\$ —	\$ 27,183
Net income . . . . .	—	—	1,303	—	—	1,303
Cash dividends declared (\$ .60 per share) . . . . .	—	—	(799)	—	—	(799)
Retirement of treasury shares . . . . .	(1,073)	(15,247)	—	16,320	—	—
Merger with First Continental Real Estate Investment Trust . . . . .	283	3,110	—	—	—	3,393
Unrealized gain on securities . . . . .	—	—	—	—	652	652
Stock options exercised . . . . .	—	—	(3)	—	—	(3)
BALANCE,						
JUNE 30, 1994 . . . . .	1,543	27,134	2,400	—	652	31,729
Net income . . . . .	—	—	1,005	—	—	1,005
Cash dividends declared (\$ .16 per share) . . . . .	—	—	(247)	—	—	(247)
Shares issued in merger with Congress Street . . . . .	561	7,294	—	—	—	7,855
Shares retired in merger with Congress Street . . . . .	(567)	(7,372)	—	—	—	(7,939)
Unrealized gain on securities . . . . .	—	—	—	—	18	18
Stock options exercised . . . . .	23	(255)	—	—	—	(232)
Shares issued in payment of incentive compensation . . . . .	3	46	—	—	—	49
BALANCE,						
DECEMBER 31, 1994 . . . . .	<b>1,563</b>	<b>26,847</b>	<b>3,158</b>	—	<b>670</b>	<b>32,238</b>
Net income . . . . .	—	—	<b>11,820</b>	—	—	<b>11,820</b>
Cash dividends declared (\$ .66 per share) . . . . .	—	—	<b>(1,249)</b>	—	—	<b>(1,249)</b>
Shares issued in EB merger . . . . .	<b>429</b>	<b>5,941</b>	—	—	—	<b>6,370</b>
Retirement of treasury shares . . . . .	<b>(6)</b>	<b>(112)</b>	—	—	—	<b>(118)</b>
Unrealized loss on securities . . . . .	—	—	—	—	<b>(78)</b>	<b>(78)</b>
Stock options exercised . . . . .	<b>22</b>	<b>206</b>	—	—	—	<b>228</b>
BALANCE,						
DECEMBER 31, 1995 . . . . .	<b>\$ 2,008</b>	<b>\$ 32,882</b>	<b>\$ 13,729</b>	<b>\$ —</b>	<b>\$ 592</b>	<b>\$ 49,211</b>

See notes to consolidated financial statements.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of The Parkway Company (“Parkway” or “the Company”); Sugar Creek Center Corporation, Parkway Texas Corporation, Parkway Lamar, Inc., Parkway Ridgewood, Inc., Parkway Atlanta, Inc., EB, Inc. and Parkway Congress Corporation and its wholly-owned subsidiaries; and One Place Partners (a Mississippi general partnership), owned 100% by Parkway and Parkway Congress Corporation. All significant intercompany transactions and accounts have been eliminated.

## USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## REAL ESTATE PROPERTIES

Gains from sales of real estate are recognized based on the provisions of Statement of Financial Accounting Standards No. 66 which require upon closing the transfer of rights of ownership to the purchaser, receipt from the purchaser of an adequate cash down payment and adequate continuing investment by the purchaser. If the requirements for recognizing gains have not been met, the sale and related costs are recorded, but the gain is deferred and recognized generally on the installment method of accounting as collections are received.

Real estate properties are carried at cost less accumulated depreciation. Cost includes the carrying amount of the Company’s investment plus any additional consideration paid, liabilities assumed, costs of securing title (not to exceed fair market value in the aggregate) and improvements made subsequent to acquisition. Depreciation of buildings is computed using the straight line method over their estimated useful lives of 40 years. Depreciation of tenant improvements including personal property is computed using the straight line method over the term of the lease involved. Maintenance and repair expenses are charged to expense as incurred, while improvements are capitalized and depreciated in accordance with the useful lives outlined above. Geographically, the Company’s investments are concentrated in the Southeast and Southwest United States, with an emphasis in the states of Mississippi and Texas.

Revenue from real estate rentals is recognized and accrued as earned on a pro rata basis over the term of the lease.

Real estate held for sale is carried at the lower of fair value minus estimated costs to sell or cost. Operating real estate held for investment is stated at the lower of cost or net realizable value.

Management fee income and leasing and brokerage commissions are recorded in income as earned. Such fees on Company-owned properties are eliminated in consolidation.

## ALLOWANCE FOR POSSIBLE LOSSES

The Company provides an allowance for possible losses on real estate and mortgage loan investments for financial reporting purposes which, in the opinion of Management, is adequate to absorb possible losses determined in accordance with generally accepted accounting principles. The adequacy of the allowance or the need for an allowance is evaluated by Management quarterly based on a review of investments and properties on an individual basis.

Beginning in 1995, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 114, “Accounting by Creditors for Impairment of a Loan” and FASB Statement No. 118, “Accounting by Creditors of Impairment of a Loan – Income Recognition and Disclosures.” Under Statement 114, the 1995 allowance for credit losses related to loans that are identified for evaluation in accordance with Statement 114 is based on discounted cash flows using the loan’s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Prior to 1995, the allowance for credit losses related to these loans was based on undiscounted cash flows or the fair value of the collateral for collateral dependent loans. If the estimated net realizable value of an underlying property or mortgage loan is less than the carrying amount of the Company’s investments, the difference is included in the allowance. Although the assumptions and projections upon which estimates of net realizable value or fair market value are based reflect the Company’s best judgment, there can be no assurance that the projected events will actually occur. Therefore, adjustments to the allowance for possible losses may be required in subsequent periods.

## INVESTMENTS IN REAL ESTATE COMPANIES, PARTNERSHIPS AND CORPORATE JOINT VENTURE

The equity method of accounting is used to account for investments where the Company has the ability to exercise significant influence over the operating and financial policies of the investee but does not have majority voting control. The Company shares voting control in Golf Properties, Inc. (GPI) with a joint venture partner and, accordingly, accounts for its investment in this corporate joint venture using the equity method. The Company also shares voting control in the Wink-Parkway Partnership with a partner and, accordingly, accounts for its investment using the equity method. All other marketable equity securities are classified as “available for sale” and



are carried at fair market value with unrealized gains or losses reflected as a separate component of shareholders' equity. Loss in value of equity investments that is considered to be an other than temporary decline is charged to operations.

#### INTEREST INCOME RECOGNITION

Interest is generally accrued monthly based on the outstanding loan balances. Recognition of interest income is discontinued whenever, in the opinion of management, the collectability of such income becomes doubtful. After a loan is classified as non-earning, interest is recognized as income when received in cash.

#### AMORTIZATION

Debt origination costs are deferred and amortized using the straight-line method over the term of the loan. Leasing commissions are deferred and amortized using the straight-line method over the term of the respective lease.

#### STOCK BASED COMPENSATION

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to or above the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

#### INCOME TAXES

Income taxes have been provided using the liability method with FASB Statement No. 109, "Accounting for Income Taxes." Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss and tax credit carryforwards.

#### RECLASSIFICATIONS

Certain reclassifications have been made in the June 30, 1994 and December 31, 1994 financial statements to conform to the December 31, 1995 classifications.

#### CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### BUSINESS SEGMENT

The Company's operations are in the real estate industry.

#### CHANGE OF FISCAL YEAR END

The Company changed its fiscal year end from a June 30 (fiscal year) to December 31 as of December 31, 1994.

#### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement 121 in the first quarter of 1996 and, based on current circumstances, does not believe the effect of adoption will be material.

#### NOTE B – INVESTMENTS IN REAL ESTATE COMPANIES, REAL ESTATE PARTNERSHIPS AND CORPORATE JOINT VENTURE

On April 27, 1995, the merger of Parkway Acquisition Corporation (PAC), a wholly-owned subsidiary of Parkway, with and into EB, Inc. (EB) was completed. The increase in net assets resulting from the merger was as follows (in thousands):

Union Planters Corporation stock (637,705 shares) . . . . .	\$ 15,069
Cash . . . . .	8,603
Mortgages . . . . .	3,698
Operating real estate properties . . . . .	307
Real estate held for sale . . . . .	96
Interest receivable and other assets . . . . .	392
Mortgage notes payable on wrap mortgages . . . . .	(1,945)
Accounts payable and other liabilities . . . . .	(1,496)
	<u>\$ 24,724</u>

The Company's purchase price of the net assets acquired consisted of (in thousands):

Common stock issued (428,955 shares) . . . . .	\$ 6,370
Cash . . . . .	5,534
Cash in lieu of fractional shares . . . . .	14
Merger expenses . . . . .	353
Investment in EB . . . . .	12,453
	<u>\$ 24,724</u>

The Company's investment in the stock of EB of \$12,453,000 at the date of the merger was eliminated through the recording of the merger. Accordingly, the Company's consolidated results of operations include EB from the date of acquisition. The Company recorded equity in earnings of EB of \$135,000 for the four months ended April 27, 1995, \$618,000 for the six months ended December 31, 1994 and \$388,000 for the 12 months ended June 30, 1994. The following unaudited pro forma results reflect the increases to the Company's operations assuming the EB acquisition took place at the beginning of the periods presented (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Revenues . . . . .	<b>\$ 473</b>	\$ 845	\$ 1,993
Net income . . . . .	<b>201</b>	49	620
Net income per share . . .	<b>\$ .10</b>	\$ .02	\$ .36

The pro forma results do not purport to be indicative of actual results had the acquisition been made at the beginning of the respective periods, or of results which may occur in the future. Revenues for EB for the period April 27, 1995 through December 31, 1995 totalled \$3,625,000. During the period from April 27, 1995 through December 31, 1995, the Company sold its investment in Union Planters Corporation for \$19,244,000 and recognized a gain of \$4,175,000.

At December 31, 1995, the Company's investment in real estate company securities consisted of a less than three percent ownership in two real estate investment trusts (REIT). The Company owns 90,575 shares (2.14%) of EastGroup Properties and 105,000 shares (1.17%) of another REIT. Both investments are accounted for under the cost method of accounting with dividends received recorded as income. These investments are shown in the financial statements at their combined market value at December 31, 1995 of \$2,866,000, which includes net unrealized gain of \$592,000.

Investments in a corporate joint venture and real estate partnership at December 31, 1995 and 1994, were as follows (in thousands):

		December 31	
	Ownership Percentage	1995	1994
Corporate joint venture –			
Golf Properties, Inc. (GPI); Lot sales in Highlands, NC . . . .	65.45%	<b>\$ 368</b>	\$ 570
Partnership –			
Wink-Parkway Partnership; owns a 100% interest in an office building in New Orleans, LA . . .	50.00%	<b>317</b>	319
		<b>\$ 685</b>	\$ 889

The investment in GPI, which is accounted for by the equity method, was purchased at an amount different from the Company's pro rata share of the investee's book value. At December 31, 1995, the equity in excess of cost was \$173,000. This amount has been assigned to GPI's principal net assets and is being recognized in operations as the assets are depreciated or sold. The equity in earnings recorded by the Company includes \$22,000, \$51,000 and \$65,000 amortization of equity in excess of cost in the 12 months ended December 31, 1995, the six months ended December 31, 1994 and the 12 months ended June 30, 1994, respectively.

The Company owns a 73.125% effective interest in One Jackson Place, an office building, through its partnership interest in One Place Partners. The Company has majority voting control over the building and has consequently consolidated One Place Partners and its subsidiaries in its consolidated financial statements since March 1990. The Company records a reduction in real estate owned expenses for the minority owner's interest in the losses of One Jackson Place.

**NOTE C – INVESTMENTS IN OFFICE BUILDINGS AND REAL ESTATE HELD FOR SALE**

The Company's investment in office buildings and real estate held for sale at December 31, 1995 includes seven office buildings, one retail center, two apartment complexes, 21 townhomes, patio homes and condominiums, approximately 433 acres of land and 7 residential lots. Office buildings represent 59% of total assets at December 31, 1995 and are listed by location and carrying value below (in thousands):

Jackson, Mississippi (3 locations)	\$ 39,977
Atlanta, Georgia	8,052
Indianapolis, Indiana	2,377
Columbus, Ohio	1,447
Houston, Texas	431
	<b>\$ 52,284</b>

One tenant in the Jackson, Mississippi market leases approximately 177,000 square feet out of a total 568,000 square feet owned in Jackson. The rental income on an annual basis from this tenant is approximately \$2,400,000.

The location and carrying value of the real estate held for sale are as follows (in thousands):

Orlando, Florida	Apartment Complex (84% interest)	\$ 1,596
Dallas, Texas	Apartment Complex (40% interest)	519
Lake Jackson, Texas	Retail Center	1,415
Houston, Texas	Townhomes/Condominiums	460
Sugar Land, Texas	Acreage	3,910
Katy, Texas	Acreage	477
New Orleans, Louisiana	Acreage	3,799
Various	Acreage/Lots	255
		<b>\$12,431</b>

The Company classified certain of its operating real estate properties that are not office buildings, as held for sale as of December 31, 1995. The properties have a carrying value of \$3,990,000, net of accumulated depreciation of \$150,000 as of that date. At December 31, 1995, there was no valuation allowance related to real estate held for sale. Management believes that current market conditions are favorable to allow them to actively market the properties at prices they consider appropriate.

The following is a schedule by year of future approximate minimum rental receipts under noncancelable leases for the office buildings as of December 31, 1995 (in thousands):

Calendar Year	Amount
1996	\$ 10,286
1997	7,714
1998	6,193
1999	4,432
2000	3,648
Subsequently	10,256
	<b>\$ 42,529</b>

**NOTE D – MORTGAGE LOANS**

The unpaid balances of mortgage loans, summarized by type of loan, are as follows (in thousands):

Type of Loan	December 31	
	1995	1994
First mortgages secured by:		
Residential real estate	<b>\$ 1,792</b>	\$ 1,783
Motels	<b>1,593</b>	1,001
Commercial real estate	<b>218</b>	423
Apartments	<b>755</b>	—
Land	<b>872</b>	303
Other	<b>28</b>	93
	<b>5,258</b>	3,603
Second mortgage secured by:		
Office buildings	<b>5,903</b>	—
Total carrying amount of mortgage loans	<b>\$ 11,161</b>	\$ 3,603

At December 31, 1995, the balance of non-earning mortgage loans was \$172,000. All loans were earning (performing) loans at December 31, 1994. There was no allowance for loss set up at December 31, 1995 or 1994.



## NOTE E – NOTES PAYABLE

A summary of notes payable to banks is as follows (in thousands):

	December 31	
	1995	1994
NOTES PAYABLE TO BANKS:		
Note payable to a bank paid during 1995 . . . . .	\$ —	\$ 490
\$10,000,000 line of credit with bank at prime or LIBOR plus 1.85% maturing September 1996 secured by securities with a carrying value of \$932,000 . . . . .	—	2,664
\$1,000,000 line of credit with bank at prime maturing April 1996; secured by securities with a carrying value of \$1,507,000 . . . . .	—	1,000
	<b>\$ —</b>	<b>\$ 4,154</b>

The \$10,000,000 line of credit and the \$1,000,000 line of credit are limited to sixty-five percent (65%) and fifty percent (50%) of the quoted market value of the securities pledged as collateral, respectively.

A summary of mortgage notes payable, which are non-recourse to the Company, is as follows (in thousands):

	December 31	
	1995	1994
MORTGAGE NOTES PAYABLE:		
Note payable to an insurance company at 7.85%; due in monthly payments of \$152,000, maturing in November 2010; secured by office buildings with a carrying value of \$19,739,000 . . . . .	<b>\$ 18,336</b>	\$ 22,404
Note payable to an insurance company at 7.75%; due in monthly payments of \$118,000, maturing in January 2008; secured by office buildings with a carrying value of \$13,667,000 . . . . .	<b>11,000</b>	—
Note payable to an insurance company paid during 1995 . . . . .	—	423
	<b>\$ 29,336</b>	<b>\$ 22,827</b>

December 31

1995

1994

## MORTGAGE NOTES PAYABLE ON

## WRAP MORTGAGES:

## Notes payable to insurance

companies ranging from 8.75% to 9.625%; due in total monthly payments of \$65,000, and maturity dates ranging from December 2002 to February 2009; secured by office buildings with a carrying value of \$5,903,000 . . . . .

**\$ 5,368****\$ —**

The principal maturities of all notes payable for the succeeding five years and subsequently as of December 31, 1995 are as follows (in thousands):

Calendar Year	Amount
1996 . . . . .	\$ 1,213
1997 . . . . .	1,366
1998 . . . . .	1,480
1999 . . . . .	1,605
2000 . . . . .	1,740
Subsequently . . . . .	27,300
	<b>\$ 34,704</b>

## NOTE F – INCOME TAXES

The components of the provision for income taxes are as follows (in thousands):

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Current:			
Federal . . . . .	<b>\$ 70</b>	\$ —	\$ —
State . . . . .	<b>12</b>	—	—
	<b>82</b>	—	1
Deferred . . . . .	—	—	—
	<b>\$ 82</b>	<b>\$ —</b>	<b>\$ 1</b>

The tax effects of significant items comprising the Company's net deferred tax asset are as follows (in thousands):

	December 31	
	1995	1994
Deferred tax assets:		
Differences in book and tax		
basis of assets . . . . .	\$ 1,613	\$ 3,385
Operating loss carryforwards . . . . .	3,180	3,625
	4,793	7,010
Valuation allowance . . . . .	(4,793)	(7,010)
Net deferred tax asset . . . . .	\$ —	\$ —

The Company's income differs for income tax and financial reporting purposes principally because (1) the timing of the deduction for the provision for possible losses or writedowns, (2) the timing of the recognition of gains or losses from the sale of investments, (3) the timing of the recognition of income or losses from partnerships, (4) the equity in undistributed earnings of real estate companies differing from dividends received from those investments, (5) real estate owned has a different basis for tax and financial reporting purposes, producing different gains upon disposition, and (6) mortgage loans have a different basis for tax and financial reporting purposes, producing different gains upon collection of these receivables. At December 31, 1995, there was no deferred federal or state income tax liability due to the availability of net operating loss carryforwards.

An additional \$23,500,000 of temporary differences related to assets acquired in recent mergers with other companies will be limited during the five year period commencing with the merger dates, and therefore have not been included in the deferred tax asset calculation. After the five year periods, the temporary differences that exist on assets remaining at that time will be unrestricted and will be included in the deferred tax assets of the Company.

The net decrease in the total valuation allowance for the 12 months ended December 31, 1995 was \$2,217,000 and relates primarily to differences in book and tax basis of securities and real estate sold and mortgage loans collected. At December 31, 1995 and 1994, the net deferred tax asset is entirely offset by a valuation allowance because realization of the net deferred tax asset is not assured.

The following is a reconciliation between the amount reported for income taxes and the amount computed by multiplying income before income tax by the statutory federal tax rate (in thousands).

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
Income tax expense			
based on statutory			
income tax rate . . . . .	\$ 4,066	\$ 342	\$ 443
Operating loss carry-			
forward for			
financial reporting			
purposes . . . . .	(3,993)	(139)	(353)
Equity in earnings of			
other real estate			
companies . . . . .	(73)	(203)	(90)
Federal alternative			
minimum tax . . . . .	70	—	—
State income tax			
expense . . . . .	12	—	1
Income tax expense . . . . .	\$ 82	\$ —	\$ 1

At December 31, 1995, the Company has available net operating loss carryforwards for federal income tax purposes (June 30 fiscal year end) of approximately \$9,352,000 which expire as follows for fiscal years ended June 30 (in thousands):

Fiscal Year	Amount
1996 . . . . .	\$ 1,510
1998 . . . . .	760
1999 . . . . .	14
2000 . . . . .	57
2001 . . . . .	12
2002 . . . . .	8
2003 . . . . .	300
2004 . . . . .	47
2007 . . . . .	1,052
2008 . . . . .	3,124
2009 . . . . .	1,152
2011 . . . . .	1,316
	\$ 9,352

In addition to these net operating losses, two subsidiaries have net operating losses of approximately \$17,282,000 and \$6,244,000, respectively, at the time of their mergers with the Company. The Company's utilization of these losses will be limited to a maximum of approximately \$280,000 and \$491,000, respectively, in any given

year, subject to increases for built-in gains recognized, therefore, a majority of these loss carryforwards will be unavailable for use by the Company. Also, EB had net operating losses of approximately \$1,363,000 at the time of its merger with the Company. The Company's utilization of these losses will be limited to a maximum of \$803,000 in any given year. These loss carryforwards have not been reflected in the deferred tax asset of the Company at December 31, 1995.

#### NOTE G – COMPANY ADMINISTRATION AND TRANSACTIONS WITH AFFILIATES

Since January 1, 1995, Parkway has self-managed its operations. From 1980 through 1994, Parkway operated under an expense-sharing agreement with certain affiliated companies. The expense-sharing agreement provided that the participating companies have common officers, facilities and personnel, and the costs of these were shared among the participants. Certain costs, including directors' fees, legal, audit and stock transfer expenses, were considered non-allocable and paid directly by each participating company. As a result of certain business combinations involving the expense-sharing agreement participants, the expense-sharing agreement was terminated on December 31, 1994. Since that date, Parkway has maintained its own employees and offices located in One Jackson Place in Jackson, Mississippi. Leland R. Speed continues to serve as the Chairman of the Board and Chief Executive Officer of Parkway and EastGroup Properties (EastGroup), a former participant in the expense-sharing agreement. The administrative costs associated with Mr. Speed and a small number of clerical and support staff employees are shared equally by Parkway and EastGroup. In addition, EastGroup reimburses Parkway for the services of certain employees who perform those services for EastGroup on an as requested basis and a pro rata share of the rent on the office space in One Jackson Place. During the year ended December 31, 1995, EastGroup reimbursed Parkway \$387,000 for these expenses.

#### NOTE H – ACCOUNTS PAYABLE AND OTHER LIABILITIES

	December 31	
	1995	1994
Accounts payable . . . . .	\$ 555	\$ 218
Accrued interest payable . . . . .	84	152
Taxes payable, other than income taxes . . . . .	757	631
Other accrued expenses . . . . .	1,713	171
Other payables . . . . .	725	391
	<b>\$ 3,834</b>	<b>\$ 1,563</b>

#### NOTE I – SUPPLEMENTAL PROFIT AND LOSS INFORMATION

Included in expenses are taxes, principally property taxes, of \$1,310,000, \$871,000 and \$901,000 for the 12 months ended December 31, 1995, the six months ended December 31, 1994 and fiscal 1994, respectively.

#### NOTE J – STOCK OPTION PLANS

The 1994 Stock Option Plan provides for the issuance of an aggregate of 150,000 Parkway shares ("Shares") to key employees or officers of the Company and its subsidiaries upon the exercise of options and upon incentive grants pursuant to the Stock Option Plan. On July 1 of each year, the number of Shares available for grant shall automatically increase by one percent (1%) of the Shares outstanding on such date, provided that the number of Shares available for grant shall never exceed 12.5% of the Shares outstanding. On September 23, 1994, the Company granted 137,250 options to officers and key employees of the Company. Of the options granted, 104,250 options have an exercise price of \$13.78, the market price of Parkway shares on the date of grant. The remaining 33,000 options are "premium" options and have an exercise price of \$18.33 per share, which was 133% of the market price of the shares on the date of grant. The options issued under the 1994 Stock Option Plan vest over a two-year period, except that the committee of Directors who administer the plan has agreed that 22,500 options granted to two officers vested completely upon their termination of employment with the Company in connection with the termination of the expense-sharing agreement discussed above. At December 31, 1995, no shares are available for grant under the 1994 Stock Option Plan.



Stock option activity for the periods presented prior to December 31, 1995 was as follows:

	Number of Shares	Option Price Per Shares	Total Option Price
Outstanding at			
June 30, 1993 . . .	64,597		\$ 343,447
Exercised . . . . .	(600)	\$ 5.625	(3,375)
Relinquish . . . . .	(300)	\$ 5.625	(1,687)
Granted . . . . .	—		—
Outstanding at			
June 30, 1994 . . .	63,697		338,385
Exercised . . . . .	(63,697)		(338,385)
Granted . . . . .	104,250	\$ 13.78	1,436,565
Granted . . . . .	33,000	\$ 18.33	604,890
Outstanding at			
Dec. 31, 1994 . . .	137,250		2,041,455
Relinquish . . . . .	(4,000)	\$ 13.78	(55,125)
Exercised . . . . .	(7,742)	\$ 13.78	(106,694)
Granted . . . . .	2,500	\$ 19.00	47,500
Granted . . . . .	34,173	\$ 20.00	683,460
	162,181		\$ 2,610,596

The 1994 Stock Option Plan does not carry stock appreciation rights or incentive compensation units. The compensation expense applicable to the stock appreciation rights plan totalled \$102,000 for the six months ended December 31, 1994 and \$135,000 for the year ended June 30, 1994. Incentive compensation expense applicable to the incentive compensation units totalled \$69,000 for the six months ended December 31, 1994 and \$21,000 for the year ended June 30, 1994.

Also approved at the fiscal 1994 Annual Shareholders Meeting was the 1991 Directors Stock Option Plan, as amended. Under this plan, options for up to 100,000 shares may be granted to "non-employee directors." As of December 31, 1995, options have been granted at an option price ranging from \$6.00 per share to \$15.50 per share, the market values at date of grant. The total option price at December 31, 1995 of these options was \$705,000. The 1991 Directors Stock Option Plan, as amended does not carry stock appreciation rights or incentive compensation units and options are exercisable in full on the date of grant. At December 31, 1995, there were 24,500 options available for grant under the 1991 Directors Stock Option Plan, as amended.

#### NOTE K – LITIGATION

The Company is not presently engaged in any litigation other than ordinary routine litigation incidental to its business. Management believes such litigation will not materially affect the financial position, operations or liquidity of the Company.

#### NOTE L – SUPPLEMENTAL CASH FLOW INFORMATION

	12 Months Ended Dec. 31, 1995	6 Months Ended Dec. 31, 1994	12 Months Ended June 30, 1994
	<i>(In thousands)</i>		
Loans to facilitate sales of real estate . . . . .	\$ 410	\$ 304	\$ 420
Loan foreclosures added to real estate held for sale . . . . .	31	31	—
Loan foreclosures added to operating real estate . . . . .	412	71	—
Interest paid . . . . .	2,341	1,204	2,441
Income taxes paid . . . . .	77	—	1

#### NOTE M – SUBSEQUENT EVENTS

On February 15, 1996, the Company received funding on a \$4,800,000 non-recourse, 15-year, fully amortizing loan from a life insurance company on the IBM Building. The loan has a fixed interest rate of 7.70%.

On March 7, 1996, the Company purchased the One Park 10 Plaza Building in Houston, Texas from an insurance company for \$6,700,000. One Park 10 Plaza is an eight-story office building with 609 parking spaces and is 89% leased at March 15, 1996.

#### NOTE N – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

##### CASH AND CASH EQUIVALENTS:

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

##### REAL ESTATE SECURITIES:

The carrying amount reported in the balance sheet for real estate securities are based on quoted market prices.

## MORTGAGE LOANS:

The fair values for mortgage loans are estimated based on net realizable value and discounted cash flow analyses, using interest rates currently being offered loans with similar terms to borrowers of similar credit quality.

## NOTES PAYABLE TO BANKS AND MORTGAGE NOTES PAYABLE WITHOUT RECOURSE:

The carrying amounts of the Company's notes payable to banks approximate fair value. The fair values of the Company's long-term debt are estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1995 are as follows (in thousands):

	Carrying Amount	Fair Value
Real estate related investments:		
Real estate securities . . . . .	\$ 2,866	\$ 2,866
Mortgage loans . . . . .	11,161	21,049
Cash and cash equivalents . . . . .	6,044	6,044
Mortgage notes payable		
without recourse . . . . .	29,336	29,336
Mortgage notes payable		
on wrap mortgages . . . . .	5,368	5,181

## REAL ESTATE DATA (as of December 31, 1995)

### OFFICE BUILDINGS

Description	Ownership %	Size	% Leased as of March 15, 1996	Location	Year Acquired	Carrying Value	Debt (2)
One Jackson Place	73%	218,000 SF	100%	Jackson, MS	1987	\$ 19,739,000	\$ 18,336,000
Mitel Centre	100%	260,000 SF	99%	Jackson, MS	1995	13,668,000	11,000,000
Waterstone	100%	92,000 SF	94%	Atlanta, GA	1995	8,052,000	
IBM	100%	90,000 SF	94%	Jackson, MS	1995	6,570,000	
Corporate Square West	100%	95,000 SF	96%	Indianapolis, IN	1990	2,377,000	
Cascade III	100%	25,000 SF	86%	Columbus, OH	1990	1,447,000	
West Office Building	100%	22,000 SF	100%	Houston, TX	1994	431,000	
Wink Office Building (1)	50%	33,000 SF	100%	New Orleans, LA	1994	317,000	
						\$ 52,601,000	\$ 29,336,000

(1) Held through Wink-Parkway Partnership. Carrying value represents net investment in partnership.

(2) Non-recourse, fixed rate mortgage notes payable.

### REAL ESTATE HELD FOR SALE (Over \$100,000 carrying value)

#### OPERATING PROPERTIES

Description	Ownership %	Size	% Leased as of March 15, 1996	Location	Year Acquired	Carrying Value
The Club at Winter Park Apartments	84%	180 units	91%	Orlando, FL	1995	\$ 1,596,000
Plantation Village Shopping Center	100%	57,000 SF	88%	Lake Jackson, TX	1994	1,415,000
Oak Creek Apartments	40%	212 units	93%	Dallas, TX	1995	519,000
Silver Hollow Townhomes	100%	15 units	93%	Houston, TX	1994	389,000
						\$ 3,919,000

#### LAND

Description	Ownership %	Size	Location	Year Acquired	Carrying Value
Bullard Road	100%	80 acres	New Orleans, LA	1990	\$ 3,799,000
Sugar Creek Center	100%	21 acres	Sugar Land, TX	1980	3,042,000
Sugar Land Triangle	100%	6 acres	Sugar Land, TX	1994	868,000
Greenbusch	100%	162 acres	Katy, TX (Houston)	1994	477,000
Highlands lots (1)	65%	29 lots	Highlands, NC	1980	369,000
					\$ 8,555,000

(1) Held through Golf Properties, Inc. Carrying value represents net investment in corporate joint venture.  
Also owns 83 country club memberships for sale.

## BOARD OF DIRECTORS

### DANIEL C. ARNOLD

Houston, TX; Director since 1994; Private Investor.

### H. C. BAILEY, JR.

Jackson, MS; Director since 1988; President, H. C. Bailey Company, (Real Estate Development); Trustee, EastGroup Properties; Director, LNH REIT, Inc.

### GEORGE R. FARISH

Houston, TX; Director since 1981; Director and President, Houston Savings Association; Director, LNH REIT, Inc.

### ROGER P. FRIOU

Jackson, MS; Director since 1995; President and Vice-Chairman of the Board, Jitney Jungle Stores of America, Inc.

### B. PAT GREEN, JR.

Hattiesburg, MS; Director since 1981; President, Green Oil Company and Green Investment Company.

### SIDNEY W. LASSEN

Kenner, LA; Director since 1993; Chairman of the Board and Chief Executive Officer, Sizeler Property Investors, Inc., Sizeler Realty Co., Inc.; Director, Hibernia Corporation.

### JOE F. LYNCH

Houston, TX; Director since 1994; Consultant to the Company since 1994; Director, Community Bancorporation of New Mexico, Inc.

### C. HERBERT MAGRUDER, M.D.

Greenwood, SC; Director since 1988; Partner, Carolina Pathology Associates.

### W. LINCOLN MOSSOP, JR.

Providence, RI; Director since 1986; President and Chief Executive Officer, Barrett and Co. (Securities Brokers); Trustee, Citizens Growth Properties.

### LELAND R. SPEED

Jackson, MS; Director since 1978; Chairman of the Board and Chief Executive Officer since 1980; Chairman of the Board and Chief Executive Officer, EastGroup Properties; President and Director, LNH REIT, Inc.; Director, First Mississippi Corporation, Farm Fish, Inc., KLLM Transport Services, Inc.

## ADDRESS

The Parkway Company  
300 One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201  
(601) 948-4091  
(800) 748-1667

## INDEPENDENT AUDITORS

Ernst & Young  
400 One Jackson Place  
188 East Capitol Street  
Jackson, Mississippi 39201

## REGISTRAR AND TRANSFER AND DIVIDEND AGENT

KeyCorp Shareholder Services, Inc.  
P. O. Box 6477  
Cleveland, Ohio 44101-1477  
(800) 542-7792

## OFFICERS

### LELAND R. SPEED

Chairman of the Board and Chief Executive Officer

### STEVEN G. ROGERS

President and Chief Operating Officer

### SARAH P. CLARK, CPA

Vice-President, Chief Financial Officer and Secretary

### JAMES M. INGRAM

Vice-President

### DAVID R. FOWLER

Vice-President

### REGINA P. SHOWS, CPA

Controller

### SUSAN D. EGGER, CPA

Assistant Controller and Benefits Coordinator

## SHARES

The Common Stock of The Parkway Company is traded in the Over-The-Counter market and is listed on the NASDAQ National Market System under the symbol PKWY.

## FORM 10-KSB

A copy of the annual report filed with the Securities and Exchange Commission on Form 10-KSB is available without charge upon written request to the Corporate Offices.

## SHAREHOLDER INFORMATION

Information on the Company, including news releases, quarterly reports and Form 10-KSB is available on the World Wide Web at <http://www.parkwayco.com>. Questions or requests for information can be e-mailed to the Company at [info@parkwayco.com](mailto:info@parkwayco.com). In addition, Company news releases and quarterly reports are available to anyone with a fax machine by calling 1-800-758-5804, extension 103115 and following the recorded instructions. News releases can also be accessed through PR Newswire's home page on the World Wide Web at <http://www.prnewswire.com>.



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