

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q



Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarterly Period Ended September 30, 2005
or



Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Transition Period from _____ to _____
Commission File Number 1-11533

Parkway Properties, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

74-2123597

(IRS Employer Identification No.)

**One Jackson Place Suite 1000
188 East Capitol Street
P. O. Box 24647**

Jackson, Mississippi 39225-4647

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(601) 948-4091**

Registrant's web site **www.pky.com**

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

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

Yes No

14,150,485 shares of Common Stock, \$.001 par value, were outstanding as of November 1, 2005.

PARKWAY PROPERTIES, INC.
FORM 10-Q
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PARKWAY PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30 2005	December 31 2004
	(Unaudited)	
Assets		
Real estate related investments:		
Office and parking properties	\$ 1,199,231	\$ 959,279
Parking development	-	4,434
Accumulated depreciation	(169,346)	(142,906)
	1,029,885	820,807
Land available for sale	1,467	3,528
Investment in unconsolidated joint ventures	12,834	25,294
	1,044,186	849,629
Rents receivable and other assets	67,412	42,448
Intangible assets, net	59,961	38,034
Cash and cash equivalents	18,955	1,077
	\$ 1,190,514	\$ 931,188
Liabilities		
Notes payable to banks	\$ 146,119	\$ 104,618
Mortgage notes payable	463,449	353,975
Accounts payable and other liabilities	74,585	42,468
Subsidiary redeemable preferred membership interests	10,741	10,741
	694,894	511,802
Minority Interest		
Minority Interest – unit holders	38	39
Minority Interest – real estate partnerships	13,241	3,699
	13,279	3,738
Stockholders' Equity		
8.34% Series B Cumulative Convertible Preferred stock, \$.001 par value, 2,142,857 shares authorized, 803,499 shares issued and outstanding	28,122	28,122
Series C Preferred stock, \$.001 par value, 400,000 shares authorized, no shares issued	-	-
8.00% Series D Preferred stock, \$.001 par value, 2,400,000 shares authorized, issued and outstanding	57,976	57,976
Common stock, \$.001 par value, 65,057,143 shares authorized, 14,138,442 and 12,464,817 shares issued and outstanding in 2005 and 2004, respectively	14	12
Excess stock, \$.001 par value, 30,000,000 shares authorized, no shares issued	-	-
Common stock held in trust, at cost, 124,000 and 130,000 shares in 2005 and 2004, respectively	(4,198)	(4,400)
Additional paid-in capital	388,893	310,455
Unearned compensation	(3,052)	(4,122)
Accumulated other comprehensive income (loss)	640	(226)
Retained earnings	13,946	27,831
	482,341	415,648
	\$ 1,190,514	\$ 931,188

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended September 30	
	2005	2004
	(Unaudited)	
Revenues		
Income from office and parking properties	\$ 48,030	\$ 41,453
Management company income	315	433
Other income	5	3
	<u>48,350</u>	<u>41,889</u>
Expenses		
Office and parking properties:		
Operating expense	23,200	19,209
Interest expense:		
Contractual	6,376	5,052
Subsidiary redeemable preferred membership interests	189	268
Prepayment expenses	-	(141)
Amortization of loan costs	233	159
Depreciation and amortization	11,687	10,587
Operating expense for other real estate properties	2	(2)
Interest expense on bank notes:		
Contractual	1,881	932
Amortization of loan costs	126	114
Management company expenses	120	87
General and administrative	791	1,122
	<u>44,605</u>	<u>37,387</u>
Income before equity in earnings, loss, minority interest and discontinued operations	3,745	4,502
Equity in earnings of unconsolidated joint ventures	330	359
Loss on real estate	(26)	-
Minority interest - unit holders	-	(1)
Minority interest - real estate partnerships	20	(31)
Income before discontinued operations	4,069	4,829
Discontinued operations:		
Income from discontinued operations	250	322
Gain on sale of real estate from discontinued operations	4,181	-
Net income	8,500	5,151
Change in unrealized gain on equity securities	60	-
Change in market value of interest rate swaps	469	(57)
Comprehensive income	<u>\$ 9,029</u>	<u>\$ 5,094</u>
Net income available to common stockholders:		
Net income	\$ 8,500	\$ 5,151
Dividends on preferred stock	(1,200)	(1,200)
Dividends on convertible preferred stock	(586)	(1,350)
Net income available to common stockholders	<u>\$ 6,714</u>	<u>\$ 2,601</u>
Net income per common share:		
Basic:		
Income from continuing operations	\$ 0.17	\$ 0.20
Discontinued operations	0.31	0.03
Net income	<u>\$ 0.48</u>	<u>\$ 0.23</u>
Diluted:		
Income from continuing operations	\$ 0.16	\$ 0.20
Discontinued operations	0.31	0.03
Net income	<u>\$ 0.47</u>	<u>\$ 0.23</u>
Dividends per common share	<u>\$ 0.65</u>	<u>\$ 0.65</u>
Weighted average shares outstanding:		
Basic	14,116	11,330
Diluted	<u>14,295</u>	<u>11,528</u>

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Nine Months Ended	
	September 30	
	2005	2004
	(Unaudited)	
Revenues		
Income from office and parking properties	\$ 142,590	\$ 117,301
Management company income	2,597	1,270
Other income and deferred gains	246	20
	<u>145,433</u>	<u>118,591</u>
Expenses		
Office and parking properties:		
Operating expense	66,475	54,792
Interest expense:		
Contractual	19,380	14,369
Subsidiary redeemable preferred membership interests	562	535
Prepayment expenses	-	130
Amortization of loan costs	576	407
Depreciation and amortization	37,425	26,272
Operating expense for other real estate properties	4	18
Interest expense on bank notes:		
Contractual	4,678	2,696
Amortization of loan costs	376	329
Management company expenses	478	259
General and administrative	3,341	3,089
	<u>133,295</u>	<u>102,896</u>
Income before equity in earnings, gain, minority interest and discontinued operations	12,138	15,695
Equity in earnings of unconsolidated joint ventures	1,095	1,469
Gain on sale of joint venture interest, real estate and note receivable	965	774
Minority interest - unit holders	(1)	(2)
Minority interest - real estate partnerships	(301)	92
Income before discontinued operations	<u>13,896</u>	<u>18,028</u>
Discontinued operations:		
Income from discontinued operations	777	811
Gain on sale of real estate from discontinued operations	4,181	-
Net income	<u>18,854</u>	<u>18,839</u>
Change in unrealized gain on equity securities	7	-
Change in market value of interest rate swaps	859	109
Comprehensive income	<u>\$ 19,720</u>	<u>\$ 18,948</u>
Net income available to common stockholders:		
Net income	\$ 18,854	\$ 18,839
Dividends on preferred stock	(3,600)	(3,600)
Dividends on convertible preferred stock	(1,759)	(4,122)
Net income available to common stockholders	<u>\$ 13,495</u>	<u>\$ 11,117</u>
Net income per common share:		
Basic:		
Income from continuing operations	\$ 0.61	\$ 0.93
Discontinued operations	0.35	0.07
Net income	<u>\$ 0.96</u>	<u>\$ 1.00</u>
Diluted:		
Income from continuing operations	\$ 0.60	\$ 0.91
Discontinued operations	0.35	0.07
Net income	<u>\$ 0.95</u>	<u>\$ 0.98</u>
Dividends per common share	<u>\$ 1.95</u>	<u>\$ 1.95</u>
Weighted average shares outstanding:		
Basic	14,035	11,094
Diluted	<u>14,216</u>	<u>11,299</u>

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Nine Months Ended	
	September 30	
	2005	2004
	(Unaudited)	
8.34% Series B Cumulative Convertible Preferred stock, \$.001 par value		
Balance at beginning of period	\$ 28,122	\$ 68,000
Conversion of preferred stock to common stock	-	(5,250)
Balance at end of period	28,122	62,750
8.00% Series D Preferred stock, \$.001 par value		
Balance at beginning of period	57,976	57,976
Balance at end of period	57,976	57,976
Common stock, \$.001 par value		
Balance at beginning of period	12	11
Shares issued - stock offering	2	-
Balance at end of period	14	11
Common stock held in trust		
Balance at beginning of period	(4,400)	(4,321)
Shares distributed from (contributed to) deferred compensation plan	202	(79)
Balance at end of period	(4,198)	(4,400)
Additional paid-in capital		
Balance at beginning of period	310,455	252,695
Stock options exercised	1,794	4,673
Shares issued in lieu of Directors' fees	193	137
Restricted shares forfeited	(679)	-
Deferred incentive share units forfeited	(40)	-
Shares issued - DRIP plan	1,361	11,390
Shares issued - stock offering	75,809	-
Conversion of preferred stock to common stock	-	5,250
Balance at end of period	388,893	274,145
Unearned compensation		
Balance at beginning of period	(4,122)	(4,634)
Restricted shares forfeited	679	-
Deferred incentive share units forfeited	40	-
Amortization of unearned compensation	351	590
Balance at end of period	(3,052)	(4,044)
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(226)	-
Change in unrealized gain on equity securities	7	-
Change in market value of interest rate swaps	859	109
Balance at end of period	640	109
Retained earnings		
Balance at beginning of period	27,831	38,253
Net income	18,854	18,839
Preferred stock dividends declared	(3,600)	(3,600)
Convertible preferred stock dividends declared	(1,759)	(4,122)
Common stock dividends declared	(27,380)	(21,851)
Balance at end of period	13,946	27,519
Total stockholders' equity	\$ 482,341	\$ 414,066

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended	
	September 30	
	2005	2004
	(Unaudited)	
Operating activities		
Net income	\$ 18,854	\$ 18,839
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	37,425	26,272
Depreciation and amortization – discontinued operations	343	369
Amortization of above market leases	1,400	77
Amortization of loan costs	952	736
Amortization of unearned compensation	351	590
Income (loss) allocated to minority interests	302	(90)
Gain on sale of joint venture interest, real estate and note receivable	(5,146)	(774)
Equity in earnings of unconsolidated joint ventures	(1,095)	(1,469)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(11,282)	(5,901)
Increase in accounts payable and accrued expenses	17,445	5,023
Cash provided by operating activities	<u>59,549</u>	<u>43,672</u>
Investing activities		
Payments received on mortgage loans	-	774
Distributions from unconsolidated joint ventures	4,139	1,831
Investments in unconsolidated joint ventures	(45)	(286)
Purchases of real estate related investments	(142,643)	(72,524)
Proceeds from sale of joint venture interest	24,064	-
Real estate development	(3,320)	(1,462)
Improvements to real estate related investments	(25,726)	(23,308)
Cash used in investing activities	<u>(143,531)</u>	<u>(94,975)</u>
Financing activities		
Principal payments on mortgage notes payable	(12,941)	(16,425)
Net proceeds from bank borrowings	42,361	41,792
Proceeds from long-term financing	17,160	28,950
Stock options exercised	1,794	4,673
Dividends paid on common stock	(27,229)	(21,575)
Dividends paid on preferred stock	(5,836)	(7,791)
Contributions from minority interest partners	9,489	-
Distributions to minority interest partners	(110)	(104)
Proceeds from DRIP Plan	1,361	11,390
Redemption of subsidiary preferred membership interests	-	(4,750)
Proceeds from stock offerings and preferred membership interests	75,811	15,491
Cash provided by financing activities	<u>101,860</u>	<u>51,651</u>
Impact on cash of consolidation of MBALP	<u>-</u>	<u>763</u>
Change in cash and cash equivalents	17,878	1,111
Cash and cash equivalents at beginning of period	<u>1,077</u>	<u>468</u>
Cash and cash equivalents at end of period	<u>\$ 18,955</u>	<u>\$ 1,579</u>

See notes to consolidated financial statements.

Parkway Properties, Inc.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2005

(1) Basis of Presentation

The consolidated financial statements include the accounts of Parkway Properties, Inc. ("Parkway" or "the Company"), its wholly-owned subsidiaries and joint ventures in which the Company has a controlling interest. Third party equity interests in the consolidated joint ventures are reflected as minority interests in the consolidated financial statements. Parkway also consolidates subsidiaries where the entity is a variable interest entity and Parkway is the primary beneficiary, as defined in FASB Interpretation 46R "Consolidation of Variable Interest Entities" ("FIN 46R"). All significant intercompany transactions and accounts have been eliminated.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The accompanying financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Operating results for the three months and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The financial statements should be read in conjunction with the annual report and the notes thereto.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

(2) Reclassifications

Certain reclassifications have been made in the 2004 consolidated financial statements to conform to the 2005 classifications.

(3) Supplemental Cash Flow Information and Schedule of Non-Cash Investing and Financing Activity

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

	Nine Months Ended	
	September 30	
	2005	2004
	(in thousands)	
Supplemental cash flow information:		
Cash paid for interest	\$ 23,301	\$ 17,225
Income taxes (refunded) paid	(17)	(4)
Supplemental schedule of non-cash investing and financing activity:		
Mortgages assumed in purchase	124,530	88,678
Mortgage transferred to joint venture	(19,275)	-
Restricted shares forfeited	(679)	-
Shares issued in lieu of Directors' fees	193	137

(4) Acquisitions and Dispositions

On January 5, 2005, the Company entered into an agreement to purchase the 70% interest held by Investcorp International, Inc., its joint venture partner, in the property known as 233 North Michigan Avenue in Chicago, Illinois. The gross purchase price for the 70% interest was \$139.7 million, and the Company closed the investment in two stages. The Company closed 90% of the purchase on January 14, 2005. The second closing for the remainder of Investcorp's interest occurred on April 29, 2005, following lender and rating agency approval. The Company earned a \$400,000 incentive fee from Investcorp based upon the economic returns generated over the life of the partnership. The purchase was funded with a portion of the proceeds from the sale of 1.6 million shares of common stock to Citigroup Global Markets Inc. on January 10, 2005 and the assumption of an existing first mortgage on the property. The allocation of purchase price to intangible assets and liabilities is as follows (in thousands):

Lease in place value	\$ 16,037
Above market lease value	13,482
Below market lease value	<u>(4,162)</u>
	<u>\$ 25,357</u>

The unaudited pro forma effect on the Company's results of operations for the 233 North Michigan purchase as if the purchase had occurred on January 1, 2004 is as follows (in thousands, except per share data):

	Nine Months Ended September 30	
	2005	2004
Revenues	\$ 1,099	\$ 23,811
Net income available to common stockholders	\$ 206	\$ 718
Basic earnings per share	\$ 0.01	\$ (0.07)
Diluted earnings per share	\$ 0.01	\$ (0.06)

On March 30, 2005, the Company purchased for \$29.3 million the Stein Mart Building and Riverplace South in downtown Jacksonville, Florida. In addition to the purchase price the Company expects to invest an additional \$4.8 million in improvements and closing costs during the first two years of ownership. The buildings total 302,000 square feet, and the purchase was funded with the remaining proceeds from the Company's January 2005 equity offering as well as funds obtained under its existing line of credit. The allocation of purchase price to intangible assets and liabilities is as follows (in thousands):

Lease in place value	\$ 2,006
Above market lease value	236
Below market lease value	<u>(1,023)</u>
	<u>\$ 1,219</u>

On June 16, 2005, the Company closed the joint venture of Maitland 200 to Rubicon America Trust ("Rubicon"), an Australian listed property trust. Maitland 200 is a 203,000 square foot, 96.5% leased office property located in Orlando, Florida. The consideration places total building value at \$28.4 million. Rubicon acquired an 80% interest in the single purpose entity that owns the property and assumed 100% of the existing \$19.3 million, 4.4% first mortgage. Parkway received a \$947,000 acquisition fee at closing and retained management and leasing of the property and a 20% ownership interest. Parkway recognized a gain for financial reporting purposes on the transfer of the 80% interest of \$1.3 million in the second quarter. The joint venture is accounted for using the equity method of accounting.

On July 26, 2005, the Company purchased for \$19.25 million Forum I in Memphis, Tennessee. In addition to the purchase price, the Company expects to invest an additional \$1.9 million in improvements and closing costs during the first two years of ownership. The building totals 162,000 square feet, and the purchase was funded with the Company's existing lines of credit and the assumption of an \$11.7 million first mortgage. The allocation of the purchase price is preliminary pending completion of the valuation of tangible and intangible assets. The preliminary allocation of purchase price to intangible assets and liabilities is as follows (in thousands):

Lease in place value	\$	1,410
Above market lease value		315
Below market lease value		(314)
	\$	<u>1,411</u>

On September 9, 2005, the Company sold The Park on Camelback for \$17.5 million. The Park is a 102,000 square foot office property located in Phoenix, Arizona. The Company recorded a gain on the sale of \$4.4 million in the third quarter of 2005. This property was previously classified as an office property held for sale. See Note 5 – Discontinued Operations for more information.

On September 14, 2005, the Company sold 250 Commonwealth, a 46,000 square foot office property located in Greenville, South Carolina, for \$4 million. The Company recorded a loss on the sale of \$238,000 in the third quarter of 2005. See Note 5 – Discontinued Operations for more information.

On September 28, 2005, the discretionary fund the Company has with Ohio Public Employees Retirement System ("Ohio PERS") purchased a two-building office portfolio in Orlando, Florida. Parkway is a 25% investor and Ohio PERS is a 75% investor in the fund. The two properties, Maitland 100 and 555 Winderley Place, total 230,000 square feet, and the two buildings were acquired for a combined purchase price of \$28.4 million. The fund expects to spend an additional \$3.3 million for closing costs, building improvements, leasing costs and tenant improvements during the first two years of ownership. The purchase was funded with a \$17.2 million first mortgage placement by the fund and with equity contributions from the partners. Parkway Realty Services will provide management and renewal leasing services through its existing team in Orlando. New leasing services will be provided by an unaffiliated third-party leasing agency. Since Parkway is the sole general partner and has the authority to make major decisions on behalf of the fund, thereby giving Parkway a controlling interest, Parkway has included the discretionary fund in its consolidated financial statements.

(5) Discontinued Operations

In the third quarter of 2005, the Company sold The Park on Camelback in Phoenix, Arizona for a gain of \$4.4 million and 250 Commonwealth in Greenville, South Carolina for a loss of \$238,000. All current and prior period income from the office properties have been classified as discontinued operations.

The amount of revenue and expense for these two office properties reported in discontinued operations for the three months and nine months ended September 30, 2005 and 2004 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
Income Statement:				
Revenues				
Income from office and parking properties	\$ 510	\$ 767	\$ 1,925	\$ 2,050
	<u>510</u>	<u>767</u>	<u>1,925</u>	<u>2,050</u>
Expenses				
Office and parking properties:				
Operating expense	233	310	805	870
Depreciation and amortization	27	135	343	369
	<u>260</u>	<u>445</u>	<u>1,148</u>	<u>1,239</u>
Income from discontinued operations	250	322	777	811
Gain on sale of real estate from discontinued operations	4,181	-	4,181	-
Total discontinued operations	<u>\$ 4,431</u>	<u>\$ 322</u>	<u>\$ 4,958</u>	<u>\$ 811</u>

(6) Investment in Unconsolidated Joint Ventures

As of September 30, 2005, the Company was invested in five unconsolidated joint ventures. As required by generally accepted accounting principles, these joint ventures are accounted for using the equity method of accounting, as Parkway does not control any of these joint ventures and is not the primary beneficiary. As a result, the assets and liabilities of the joint ventures are not included on Parkway's consolidated balance sheets as of September 30, 2005. Information relating to the unconsolidated joint ventures is detailed below.

Joint Ventures	Property Name	Location	Square Feet (in thousands)	Parkway's Ownership Interest	Percentage Leased
Phoenix OfficeInvest, LLC ("Viad JV")	Viad Corporate Center	Phoenix, AZ	481	30.0%	95.5%
Wink-Parkway Partnership	Wink Building	New Orleans, LA	32	50.0%	100.0%
Parkway Joint Venture, LLC ("Jackson JV")	UBS Building/River Oaks	Jackson, MS	169	20.0%	89.3%
RubiconPark I, LLC ("Rubicon JV")	Lakewood/Falls Pointe	Atlanta, GA	550	20.0%	91.5%
RubiconPark II, LLC ("Maitland JV")	Carmel Crossing	Charlotte, NC	203	20.0%	97.9%
	Maitland 200	Orlando, FL	203		
			<u>1,435</u>		<u>93.7%</u>

Balance sheet information for the unconsolidated joint ventures is summarized below as of September 30, 2005 and December 31, 2004 (in thousands):

Balance Sheet Information								
September 30, 2005								
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total	
Unconsolidated Joint Ventures (at 100%):								
Real Estate, Net	\$ -	\$ 58,602	\$ 1,242	\$ 16,746	\$ 68,819	\$ 29,496	\$ 174,905	
Other Assets	-	4,308	149	1,141	6,834	504	12,936	
Total Assets	\$ -	\$ 62,910	\$ 1,391	\$ 17,887	\$ 75,653	\$ 30,000	\$ 187,841	
Mortgage Debt (a)	\$ -	\$ 50,000	\$ 387	\$ 12,600	\$ 52,000	\$ 19,275	\$ 134,262	
Other Liabilities	-	2,716	4	441	2,426	1,001	6,588	
Partners'/Shareholders' Equity	-	10,194	1,000	4,846	21,227	9,724	46,991	
Total Liabilities and Partners'/Shareholders' Equity	\$ -	\$ 62,910	\$ 1,391	\$ 17,887	\$ 75,653	\$ 30,000	\$ 187,841	
Parkway's Share of Unconsolidated Joint Ventures:								
Real Estate, Net	\$ -	\$ 17,581	\$ 621	\$ 3,349	\$ 13,764	\$ 5,899	\$ 41,214	
Mortgage Debt	\$ -	\$ 15,000	\$ 194	\$ 2,520	\$ 7,200	\$ -	\$ 24,914	
Net Investment in Joint Ventures	\$ -	\$ 2,242	\$ 500	\$ (66)	\$ 5,133	\$ 5,025	\$ 12,834	
December 31, 2004								
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total	
Unconsolidated Joint Ventures (at 100%):								
Real Estate, Net	\$ 168,135	\$ 58,688	\$ 1,259	\$ 16,654	\$ 69,336	\$ -	\$ 314,072	
Other Assets	14,245	3,737	154	530	6,675	-	25,341	
Total Assets	\$ 182,380	\$ 62,425	\$ 1,413	\$ 17,184	\$ 76,011	\$ -	\$ 339,413	
Mortgage Debt (a)	\$ 100,133	\$ 42,500	\$ 450	\$ 11,269	\$ 52,000	\$ -	\$ 206,352	
Other Liabilities	10,797	2,579	3	532	295	-	14,206	
Partners'/Shareholders' Equity	71,450	17,346	960	5,383	23,716	-	118,855	
Total Liabilities and Partners'/Shareholders' Equity	\$ 182,380	\$ 62,425	\$ 1,413	\$ 17,184	\$ 76,011	\$ -	\$ 339,413	
Parkway's Share of Unconsolidated Joint Ventures:								
Real Estate, Net	\$ 50,440	\$ 17,606	\$ 630	\$ 3,331	\$ 13,867	\$ -	\$ 85,874	
Mortgage Debt	\$ 30,040	\$ 12,750	\$ 225	\$ 2,254	\$ 7,200	\$ -	\$ 52,469	
Net Investment in Joint Ventures	\$ 14,539	\$ 4,388	\$ 480	\$ 19	\$ 5,868	\$ -	\$ 25,294	

(a) The mortgage debt, all of which is non-recourse, is collateralized by the individual real estate properties within each venture.

The terms related to Parkway's share of unconsolidated joint venture mortgage debt are summarized below (in thousands):

Joint Venture	Type of Debt Service	Interest Rate	Maturity	Monthly Debt Service	Loan Balance 09/30/05	Loan Balance 12/31/04
Viad JV	Interest Only	LIBOR + 2.150%	05/12/07	\$ 74	\$ 15,000	\$ 12,750
Wink-Parkway Partnership	Amortizing	8.625%	07/01/09	5	194	225
Maitland JV	Interest Only	4.390%	06/01/11	-	-	-
233 North Michigan Avenue	Amortizing	7.350%	07/11/11	-	-	30,040
Rubicon JV	Interest Only	4.865%	01/01/12	30	7,200	7,200
Jackson JV	Interest Only	5.840%	07/01/15	12	2,520	2,254
				<u>\$ 121</u>	<u>\$ 24,914</u>	<u>\$ 52,469</u>
Weighted average interest rate at end of period					<u>5.509%</u>	<u>6.982%</u>

The following table presents Parkway's proportionate share of principal payments due for mortgage debt in unconsolidated joint ventures (in thousands):

	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Total
2005 (3 Months Remaining)	\$ -	\$ 11	\$ -	\$ -	\$ -	\$ 11
2006	-	46	-	-	-	46
2007	15,000	50	-	-	-	15,050
2008	-	54	-	-	-	54
2009	-	33	13	100	-	146
2010	-	-	33	114	-	147
Thereafter	-	-	2,474	6,986	-	9,460
	<u>\$ 15,000</u>	<u>\$ 194</u>	<u>\$ 2,520</u>	<u>\$ 7,200</u>	<u>\$ -</u>	<u>\$ 24,914</u>

On April 11, 2005, the Viad Joint Venture refinanced its existing \$42.5 million mortgage priced at LIBOR plus 260 basis points with a two-year \$50 million mortgage priced at LIBOR plus 215 basis points. The new mortgage contains three one-year extension options with the first extension at no cost. Parkway's pro rata share of this mortgage is 30%.

On June 16, 2005, the Maitland Joint Venture was formed between Parkway, a 20% partner, and Rubicon, an 80% partner. The Maitland Joint Venture assumed the existing \$19.3 million, 4.39% first mortgage, which matures July 2011. As part of the joint venture agreement, Rubicon's pro rata share of the existing mortgage is 100%.

On June 17, 2005, the Jackson Joint Venture refinanced its existing 5.84%, \$11.2 million mortgage with a 10-year, 5.84%, \$12.6 million mortgage. The mortgage is interest only for four years and matures July 1, 2015. Parkway's pro rata share of this mortgage is 20%.

Income statement information for the unconsolidated joint ventures is summarized below for the three months and nine months ending September 30, 2005 and 2004 (in thousands):

Results of Operations							
Three Months Ended September 30, 2005							
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated Joint Ventures (100%):							
Revenues	\$ -	\$ 2,735	\$ 75	\$ 658	\$ 2,505	\$ 1,092	\$ 7,065
Operating Expenses	-	(1,267)	(11)	(350)	(988)	(467)	(3,083)
Net Operating Income	-	1,468	64	308	1,517	625	3,982
Interest Expense	-	(690)	(8)	(184)	(647)	(212)	(1,741)
Loan Cost Amortization	-	(86)	(1)	(1)	(16)	(3)	(107)
Depreciation and Amortization	-	(457)	(6)	(122)	(380)	(128)	(1,093)
Net Income	\$ -	\$ 235	\$ 49	\$ 1	\$ 474	\$ 282	\$ 1,041
Parkway's Share of Unconsolidated Joint Ventures:							
Net Income	\$ -	\$ 71	\$ 24	\$ -	\$ 136	\$ 99	\$ 330
Depreciation and Amortization	-	137	3	24	76	26	266
Funds from Operations	\$ -	\$ 208	\$ 27	\$ 24	\$ 212	\$ 125	\$ 596
Interest Expense	\$ -	\$ 207	\$ 4	\$ 36	\$ 90	\$ -	\$ 337
Loan Cost Amortization	\$ -	\$ 26	\$ 1	\$ -	\$ 2	\$ -	\$ 29
Other Supplemental Information:							
Distributions from Unconsolidated JVs	\$ -	\$ 487	\$ 40	\$ -	\$ 659	\$ 142	\$ 1,328

Results of Operations							
Three Months Ended September 30, 2004							
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated Joint Ventures (100%):							
Revenues	\$ 8,598	\$ 2,995	\$ 70	\$ 687	\$ -	\$ -	\$ 12,350
Operating Expenses	(4,261)	(1,381)	(17)	(314)	-	-	(5,973)
Net Operating Income	4,337	1,614	53	373	-	-	6,377
Interest Expense	(1,822)	(473)	(10)	(221)	-	-	(2,526)
Loan Cost Amortization	(29)	(93)	(1)	(1)	-	-	(124)
Depreciation and Amortization	(1,555)	(424)	(6)	(95)	-	-	(2,080)
Preferred Distributions	(456)	-	-	-	-	-	(456)
Net Income	\$ 475	\$ 624	\$ 36	\$ 56	\$ -	\$ -	\$ 1,191
Parkway's Share of Unconsolidated Joint Ventures:							
Net Income	\$ 143	\$ 187	\$ 18	\$ 11	\$ -	\$ -	\$ 359
Depreciation and Amortization	466	127	4	19	-	-	616
Funds from Operations	\$ 609	\$ 314	\$ 22	\$ 30	\$ -	\$ -	\$ 975
Interest Expense	\$ 546	\$ 142	\$ 5	\$ 44	\$ -	\$ -	\$ 737
Loan Cost Amortization	\$ 9	\$ 27	\$ 1	\$ 1	\$ -	\$ -	\$ 38
Preferred Distributions	\$ 137	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 137
Other Supplemental Information:							
Distributions from Unconsolidated JVs	\$ 277	\$ 218	\$ -	\$ -	\$ -	\$ -	\$ 495

Results of Operations

	Nine Months Ended September 30, 2005						
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated Joint Ventures (100%):							
Revenues	\$ 1,134	\$ 8,967	\$ 227	\$ 2,040	\$ 7,292	\$ 1,244	\$ 20,904
Operating Expenses	(619)	(3,862)	(60)	(954)	(2,853)	(534)	(8,882)
Net Operating Income	515	5,105	167	1,086	4,439	710	12,022
Interest Expense	(252)	(1,913)	(27)	(515)	(1,919)	(247)	(4,873)
Loan Cost Amortization	(4)	(233)	(2)	(46)	(48)	(3)	(336)
Depreciation and Amortization	(205)	(1,311)	(17)	(319)	(1,113)	(156)	(3,121)
Preferred Distributions	(69)	-	-	-	-	-	(69)
Net Income	\$ (15)	\$ 1,648	\$ 121	\$ 206	\$ 1,359	\$ 304	\$ 3,623
Parkway's Share of Unconsolidated Joint Ventures:							
Net Income	\$ (5)	\$ 494	\$ 60	\$ 41	\$ 394	\$ 111	\$ 1,095
Depreciation and Amortization	62	393	9	63	222	32	781
Funds from Operations	\$ 57	\$ 887	\$ 69	\$ 104	\$ 616	\$ 143	\$ 1,876
Interest Expense	\$ 75	\$ 574	\$ 14	\$ 102	\$ 267	\$ -	\$ 1,032
Loan Cost Amortization	\$ 1	\$ 71	\$ 1	\$ 9	\$ 6	\$ -	\$ 88
Preferred Distributions	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21
Other Supplemental Information:							
Distributions from Unconsolidated Joint Ventures	\$ 64	\$ 2,639	\$ 40	\$ 126	\$ 1,128	\$ 142	\$ 4,139

Results of Operations

	Nine Months Ended September 30, 2004						
	233 North Michigan	Viad JV	Wink Partnership	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated Joint Ventures (100%):							
Revenues	\$ 25,389	\$ 8,723	\$ 229	\$ 2,107	\$ -	\$ -	\$ 36,448
Operating Expenses	(11,658)	(3,962)	(67)	(925)	-	-	(16,612)
Net Operating Income	13,731	4,761	162	1,182	-	-	19,836
Interest Expense	(5,473)	(1,359)	(32)	(554)	-	-	(7,418)
Loan Cost Amortization	(88)	(278)	(3)	(3)	-	-	(372)
Depreciation and Amortization	(4,328)	(1,204)	(17)	(280)	-	-	(5,829)
Preferred Distributions	(1,279)	-	-	-	-	-	(1,279)
Net Income	\$ 2,563	\$ 1,920	\$ 110	\$ 345	\$ -	\$ -	\$ 4,938
Parkway's Share of Unconsolidated Joint Ventures:							
Net Income	\$ 769	\$ 576	\$ 55	\$ 69	\$ -	\$ -	\$ 1,469
Depreciation and Amortization	1,298	361	9	56	-	-	1,724
Funds from Operations	\$ 2,067	\$ 937	\$ 64	\$ 125	\$ -	\$ -	\$ 3,193
Interest Expense	\$ 1,641	\$ 408	\$ 16	\$ 111	\$ -	\$ -	\$ 2,176
Loan Cost Amortization	\$ 27	\$ 83	\$ 1	\$ 1	\$ -	\$ -	\$ 112
Preferred Distributions	\$ 384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 384
Other Supplemental Information:							
Distributions from Unconsolidated JVs	\$ 1,071	\$ 649	\$ 46	\$ 65	\$ -	\$ -	\$ 1,831

(7) Minority Interest – Real Estate Partnerships

In compliance with FIN 46R (see “Basis of Presentation”), Parkway began consolidating its ownership interest in Moore Building Associates LP (“MBALP”) effective January 1, 2004. Parkway has less than .1% ownership interest in MBALP and acts as the managing general partner of this partnership.

MBALP was established for the purpose of owning a commercial office building (the Toyota Center in Memphis, Tennessee) and is primarily funded with financing from a third party lender, which is secured by a first lien on the rental property of the partnership. The creditors of MBALP do not have recourse to Parkway. In acting as the general partner, Parkway is committed to providing additional funding to meet partnership operating deficits up to an aggregate amount of \$1 million. MBALP has a fixed rate non-recourse first mortgage in the amount of \$13.1 million that is secured by the Toyota Center, which has a carrying amount of \$23 million.

Parkway receives income from MBALP in the form of interest from a construction note receivable, incentive management fees and property management fees. As a result of the consolidation of MBALP, Parkway has eliminated any intercompany asset, liability, revenue and expense accounts between Parkway and MBALP.

On July 6, 2005, Parkway, through affiliated entities, entered into a limited partnership agreement forming a \$500 million discretionary fund (“the fund”) with Ohio Public Employees Retirement System (“Ohio PERS”) for the purpose of acquiring high-quality multi-tenant office properties. Ohio PERS is a 75% investor and Parkway is a 25% investor in the fund. Parkway serves as the general partner of the fund and provides asset management, property management, leasing and construction management services to the fund, for which it is paid market-based fees. The fund has fixed rate non-recourse mortgage debt totaling \$17.2 million that is secured by two office properties, Maitland 100 and 555 Winderley Place, which have a carrying value of \$28.5 million.

Since Parkway is the sole general partner and has the authority to make major decisions on behalf of the fund, thereby giving Parkway a controlling interest, Parkway is required to include the discretionary fund in its consolidated financial statements.

Minority interest in real estate partnerships represents the other partners’ proportionate share of equity in the partnerships discussed above at September 30, 2005. Income is allocated to minority interest based on the weighted average percentage ownership during the year.

(8) Stock Based Compensation

The Company has granted stock options for a fixed number of shares to employees and directors 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" (the intrinsic value method), and accordingly, recognizes no compensation expense for the stock option grants.

Effective January 1, 2006, Parkway will begin recording compensation expense based on the grant-date fair value of employee stock options in accordance with SFAS No. 123R, “Share-Based Payment.” Parkway does not anticipate that the adoption of SFAS No. 123R will have a significant impact on the Company’s consolidated financial statements since Parkway has begun granting restricted stock and/or deferred incentive share units instead of stock options to employees of the Company. The compensation expense associated with stock options is estimated at approximately \$40,000 for 2006.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation (in thousands).

	Nine Months Ended	
	September 30	
	2005	2004
Net income available to common stockholders	\$ 13,495	\$ 11,117
Stock based employee compensation costs assuming fair value method	(96)	(206)
Pro forma net income available to common stockholders	<u>\$ 13,399</u>	<u>\$ 10,911</u>
Pro forma net income per common share:		
Basic:		
Net income available to common stockholders	\$.96	\$ 1.00
Stock based employee compensation costs assuming fair value method	(.01)	(.02)
Proforma net income per common share	<u>\$.95</u>	<u>\$.98</u>
Diluted:		
Net income available to common stockholders	\$.95	\$.98
Stock based employee compensation costs assuming fair value method	(.01)	(.02)
Pro forma net income per common share	<u>\$.94</u>	<u>\$.96</u>

Effective January 1, 2003, the stockholders of the Company approved Parkway’s 2003 Equity Incentive Plan (the “2003 Plan”) that authorized the grant of up to 200,000 equity based awards to employees of the Company. At present, it is Parkway’s intention to grant restricted stock and/or deferred incentive share units instead of stock options. Restricted stock and deferred incentive share units are valued based on the New York Stock Exchange closing market price of Parkway common shares (NYSE ticker symbol, PKY) as of the date of grant. As of

September 30, 2005, 124,000 restricted shares have been issued and are valued at \$4,484,000 and 8,610 deferred incentive share units have been granted and are valued at \$395,000. The Company accounts for restricted stock and deferred incentive share units in accordance with APB No. 25 and accordingly, compensation expense is recognized over the expected vesting period. Compensation expense related to restricted stock and deferred incentive share units of \$351,000 and \$590,000 was recognized for the nine months ending September 30, 2005 and 2004, respectively.

The restricted stock granted under the 2003 Plan vests the earlier of seven years from grant date or effective December 31, 2005 if certain goals of the VALUE² Plan are met. The VALUE² Plan has as its goal to achieve funds from operations available to common stockholders (“FFO”) growth that is 10% higher than that of the National Association of Real Estate Investment Trusts (“NAREIT”) Office Index peer group. Achievement of the goals of the plan will be determined during the first quarter of 2006 upon completion of the audited financial statements for 2005 for the Company and each company comprising the peer group. However, based on the results for the nine months ended September 30, 2005 and the projected results for the year ended December 31, 2005, it is unlikely that the Company will meet the equity return goal of the plan. The value of the restricted shares is being amortized ratably over the seven-year period until such time as it becomes probable that the conditions of early vesting will be met. The deferred incentive share units granted under the 2003 Plan vest four years from grant date and are being amortized ratably over the four-year period.

Restricted stock and deferred incentive share units are forfeited if an employee leaves the Company before the vesting date. Shares and/or units that are forfeited become available for future grant under the 2003 Plan. In connection with the forfeited shares/units, the value of the forfeited shares/units, unearned compensation, accumulated amortization of unearned compensation and accumulated dividends, if any, are reversed.

(9) Capital and Financing Transactions

The purchase of the 70% interest in 233 North Michigan Avenue was subject to an existing non-recourse first mortgage with an outstanding balance of \$100 million, which matures July 2011 and carries a fixed interest rate of 7.21%. In accordance with generally accepted accounting principles, the mortgage was recorded at \$111.7 million to reflect the fair value of the financial instrument based on the market rate of 4.94% on the date of purchase.

On January 10, 2005, the Company sold 1,600,000 shares of common stock to Citigroup Global Markets Inc. The Company used the net proceeds of \$76 million towards the acquisition of the 70% interest held by its joint venture partner in the property known as 233 North Michigan Avenue in Chicago, Illinois and the acquisition of two properties in Jacksonville, Florida.

On February 4, 2005, Parkway amended and renewed the one-year \$15 million unsecured line of credit with PNC Bank. This line of credit matures February 2, 2006 and is expected to fund the daily cash requirements of the Company’s treasury management system. The interest rate on the \$15 million line is equal to the 30-day LIBOR rate plus 100 to 150 basis points, depending upon overall Company leverage (with the current rate set at LIBOR plus 132.5 basis points or 5.2%). The Company paid a facility fee of \$15,000 (10 basis points) upon closing of the loan agreement. Under the \$15 million line, the Company does not pay annual administration fees or fees on the unused portion of the line.

On March 31, 2005, Parkway entered into an amended Credit Agreement with a consortium of 10 banks with Wachovia Capital Markets, LLC as Sole Lead Arranger and Sole Book Runner, Wachovia Bank, National Association as Administrative Agent, PNC Bank, National Association as Syndication Agent, and other banks as participants. The amended Credit Agreement provides for a three-year \$190 million unsecured revolving credit facility. The \$190 million line replaces the previous \$170 million unsecured revolving credit facility. The interest rate on the \$190 million line is equal to the 30-day LIBOR rate plus 100 to 150 basis points, depending upon overall Company leverage (with the current rate set at LIBOR plus 132.5 basis points or 4.9%). The \$190 million line matures February 6, 2007 and allows for a one-year extension option available at maturity. The line is expected to fund acquisitions of additional investments.

On June 16, 2005, Parkway transferred an 80% joint venture interest in Maitland 200 to Rubicon. In addition to acquiring an 80% interest in the single purpose entity that owns the property, Rubicon assumed 100% of the existing \$19.3 million, 4.4% first mortgage. Therefore, this mortgage was transferred to the Maitland Joint Venture as of June 16, 2005.

In connection with the purchase of Forum I in Memphis, Tennessee on July 26, 2005, Parkway assumed an \$11.7 million fixed rate mortgage, of which \$5 million is recourse debt. The mortgage matures in June 2011 and bears interest at 7.31%. In accordance with GAAP, the mortgage was recorded at \$12.8 million to reflect the fair value of the financial instrument based on the market interest rate of 5.25% on the date of purchase.

In connection with the purchase of Maitland 100 and 555 Winderley Place on behalf of the discretionary fund with Ohio PERS, on September 29, 2005, the fund placed a \$17.2 million seven-year first mortgage at a fixed interest rate of 4.92%. Payments during the first five years of the mortgage term will be on an interest-only basis, and the loan includes provisions for two one-year extensions.

To protect against the potential for rapidly rising interest rates, the Company entered into two interest rate swap agreements during the third quarter of 2005. The first interest rate swap is for a \$40 million notional amount and fixes the 30-day LIBOR interest rate at 4.36%, which equates to a total interest rate of 5.685%, for the period January 1, 2006 through December 31, 2008. The second interest rate swap is for a \$20 million notional amount and fixes the 30-day LIBOR interest rate at 4.245%, which equates to a total interest rate of 5.57%, for the period July 1, 2006 through December 31, 2008.

(10) Segment Information

Parkway's primary business is the ownership and operation of office properties. The Company accounts for each office property or groups of related office properties as an individual operating segment. Parkway has aggregated its individual operating segments into a single reporting segment due to the fact that the individual operating segments have similar operating and economic characteristics.

The Company believes that the individual operating segments exhibit similar economic characteristics such as being leased by the square foot, sharing the same primary operating expenses and ancillary revenue opportunities and being cyclical in the economic performance based on current supply and demand conditions. The individual operating segments are also similar in that revenues are derived from the leasing of office space to customers and each office property is managed and operated consistently in accordance with Parkway's standard operating procedures. The range and type of customer uses of our properties is similar throughout our portfolio regardless of location or class of building and the needs and priorities of our customers do not vary from building to building. Therefore, Parkway's management responsibilities do not vary from location to location based on the size of the building, geographic location or class.

The management of the Company evaluates the performance of the reportable office segment based on FFO. Parkway computes FFO in accordance with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition. FFO is defined as net income available to common stockholders, computed in accordance with GAAP, excluding gains or losses from sales of properties, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis.

Management believes that FFO is an appropriate measure of performance for equity REITs. We believe FFO is helpful to investors as a supplemental measure that enhances the comparability of our operations by adjusting net income for items not reflective of our principal and recurring operations. This measure, along with cash flows from operating, financing and investing activities, provides investors with an indication of our ability to incur and service debt, to make capital expenditures and to fund other cash needs. In addition, FFO has widespread acceptance and use within the REIT investor and analyst communities. We believe that in order to facilitate a clear understanding of our operating results, FFO should be examined in conjunction with the net income as presented in our consolidated financial statements and notes thereto. FFO does not represent cash generated from operating activities in accordance with GAAP and is not an indication of cash available to fund cash needs. FFO should not be considered an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

The following is a reconciliation of FFO and net income available to common stockholders for office properties and total consolidated entities for the three months ending September 30, 2005 and 2004.

	As of or for the three months ended September 30, 2005			As of or for the three months ended September 30, 2004		
	Office Properties	Unallocated and Other	Consolidated	Office Properties	Unallocated and Other	Consolidated
	(In thousands)			(In thousands)		
Property operating revenues (a)	\$ 48,030	\$ -	\$ 48,030	\$ 41,453	-	\$ 41,453
Property operating expenses (b)	(23,200)	-	(23,200)	(19,209)	-	(19,209)
Property net operating income from continuing operations	24,830	-	24,830	22,244	-	22,244
Management company income	-	315	315	-	433	433
Other income	-	5	5	-	3	3
Interest expense (c)	(6,798)	(2,007)	(8,805)	(5,338)	(1,046)	(6,384)
Management company expenses	-	(120)	(120)	-	(87)	(87)
General and administrative expenses	-	(791)	(791)	-	(1,122)	(1,122)
Other expense	-	(2)	(2)	-	2	2
Equity in earnings of unconsolidated joint ventures	330	-	330	359	-	359
Adjustment for depreciation and amortization - unconsolidated joint ventures	266	-	266	616	-	616
Adjustment for depreciation and amortization - discontinued operations	27	-	27	135	-	135
Adjustment for minority interest - real estate partnerships	(148)	-	(148)	(195)	-	(195)
Loss on real estate	(26)	-	(26)	-	-	-
Income from discontinued operations	250	-	250	322	-	322
Dividends on preferred stock	-	(1,200)	(1,200)	-	(1,200)	(1,200)
Dividends on convertible preferred stock	-	(586)	(586)	-	(1,350)	(1,350)
Funds from operations available to common stockholders	18,731	(4,386)	14,345	18,143	(4,367)	13,776
Depreciation and amortization	(11,687)	-	(11,687)	(10,587)	-	(10,587)
Depreciation and amortization - unconsolidated joint ventures	(266)	-	(266)	(616)	-	(616)
Depreciation and amortization - discontinued operations	(27)	-	(27)	(135)	-	(135)
Depreciation and amortization - minority interest - real estate partnerships	168	-	168	164	-	164
Gain on sale of real estate from discontinued operations	4,181	-	4,181	-	-	-
Minority interest - unit holders	-	-	-	-	(1)	(1)
Net income available to common stockholders	\$ 11,100	\$ (4,386)	\$ 6,714	\$ 6,969	\$ (4,368)	\$ 2,601
Capital expenditures	\$ 8,424	\$ -	\$ 8,424	\$ 9,324	\$ -	\$ 9,324

- (a) Included in property operating revenues are rental revenues, customer reimbursements, parking income and other income.
- (b) Included in property operating expenses are real estate taxes, insurance, contract services, repairs and maintenance and property operating expenses.
- (c) Interest expense for office properties represents interest expense on property secured mortgage debt and interest on subsidiary redeemable preferred membership interests. It does not include interest expense on the unsecured lines of credit.

The following is a reconciliation of FFO and net income available to common stockholders for office properties and total consolidated entities for the nine months ending September 30, 2005 and 2004.

	As of or for the nine months ended September 30, 2005			As of or for the nine months ended September 30, 2004		
	Office Properties	Unallocated and Other	Consolidated	Office Properties	Unallocated and Other	Consolidated
	(In thousands)			(In thousands)		
Property operating revenues (a)	\$ 142,590	\$ -	\$ 142,590	\$ 117,301	\$ -	\$ 117,301
Property operating expenses (b)	(66,475)	-	(66,475)	(54,792)	-	(54,792)
Property net operating income from continuing operations	76,115	-	76,115	62,509	-	62,509
Management company income	-	2,597	2,597	-	1,270	1,270
Other income	-	246	246	-	20	20
Interest expense (c)	(20,518)	(5,054)	(25,572)	(15,441)	(3,025)	(18,466)
Management company expenses	-	(478)	(478)	-	(259)	(259)
General and administrative expenses	-	(3,341)	(3,341)	-	(3,089)	(3,089)
Other expense	-	(4)	(4)	-	(18)	(18)
Equity in earnings of unconsolidated joint ventures	1,095	-	1,095	1,469	-	1,469
Adjustment for depreciation and amortization - unconsolidated joint ventures	781	-	781	1,724	-	1,724
Adjustment for depreciation and amortization - discontinued operations	343	-	343	369	-	369
Adjustment for minority interest - real estate partnerships	(892)	-	(892)	(398)	-	(398)
Gain on note receivable	-	-	-	-	774	774
Loss on real estate	(26)	(340)	(366)	-	-	-
Income from discontinued operations	777	-	777	811	-	811
Dividends on preferred stock	-	(3,600)	(3,600)	-	(3,600)	(3,600)
Dividends on convertible preferred stock	-	(1,759)	(1,759)	-	(4,122)	(4,122)
Funds from operations available to common stockholders	57,675	(11,733)	45,942	51,043	(12,049)	38,994
Depreciation and amortization	(37,425)	-	(37,425)	(26,272)	-	(26,272)
Depreciation and amortization - unconsolidated joint ventures	(781)	-	(781)	(1,724)	-	(1,724)
Depreciation and amortization - discontinued operations	(343)	-	(343)	(369)	-	(369)
Depreciation and amortization - minority interest - real estate partnerships	591	-	591	490	-	490
Gain on sale of joint venture interest	1,331	-	1,331	-	-	-
Gain on sale of real estate from discontinued operations	4,181	-	4,181	-	-	-
Minority interest- unit holders	-	(1)	(1)	-	(2)	(2)
Net income available to common stockholders	\$ 25,229	\$ (11,734)	\$ 13,495	\$ 23,168	\$ (12,051)	\$ 11,117
Total assets	\$ 1,139,116	\$ 51,398	\$ 1,190,514	\$ 978,687	\$ 10,551	\$ 989,238
Office and parking properties	\$ 1,029,885	\$ -	\$ 1,029,885	\$ 886,640	\$ -	\$ 886,640
Investment in unconsolidated joint ventures	\$ 12,834	\$ -	\$ 12,834	\$ 19,950	\$ -	\$ 19,950
Capital expenditures	\$ 25,726	\$ -	\$ 25,726	\$ 23,308	\$ -	\$ 23,308

(a) Included in property operating revenues are rental revenues, customer reimbursements, parking income and other income.

(b) Included in property operating expenses are real estate taxes, insurance, contract services, repairs and maintenance and property operating expenses.

(c) Interest expense for office properties represents interest expense on property secured mortgage debt and interest on subsidiary redeemable preferred membership interests. It does not include interest expense on the unsecured lines of credit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Parkway is a self-administered and self-managed REIT specializing in the acquisition, operations and leasing of office properties. The Company is geographically focused on the Southeastern and Southwestern United States and Chicago. As of October 1, 2005, Parkway owned or had an interest in 65 office properties located in 11 states with an aggregate of approximately 12.1 million square feet of leasable space. The Company generates revenue primarily by leasing office space to its customers and providing management and leasing services to third-party office property owners (including joint venture interests). The primary drivers behind Parkway's revenues are occupancy, rental rates and customer retention.

Occupancy. Parkway's revenues are dependent on the occupancy of its office buildings. As a result of job losses and over supply of office properties during 2001 through 2003, vacancy rates increased nationally and in Parkway's markets. In 2004, the office sector began to recover from high vacancy rates due to improving job creation. As of October 1, 2005, occupancy of Parkway's office portfolio was 90.0% compared to 90.4% as of July 1, 2005 and 90.7% as of October 1, 2004. Not included in the October 1, 2005 occupancy rate are 31 signed leases totaling 106,000 square feet, which commence during the fourth quarter of 2005 through first quarter of 2006 and will raise our percentage leased to 90.9%. To combat rising vacancy, Parkway utilizes innovative approaches to produce new leases. These include the Broker Bill of Rights, a short-form service agreement (lease) and customer advocacy programs which are models in the industry and have helped the Company maintain occupancy around 90% during a time when the national occupancy rate is approximately 85.6%. Parkway projects average occupancy of 90% for the remainder of 2005 for its office properties.

Rental Rates. An increase in vacancy rates has the effect of reducing market rental rates and vice versa. Parkway's leases typically have three to seven year terms. As leases expire, the Company replaces the existing leases with new leases at the current market rental rate, which today is often lower than the existing lease rate. Customer retention is increasingly important in controlling costs and preserving revenue.

Customer Retention. Keeping our existing customers is important as high customer retention leads to increased occupancy, less downtime between leases, and reduced leasing costs. Parkway estimates that it costs five to six times more to replace an existing customer with a new one than to retain the customer. In making this estimate, Parkway takes into account the sum of revenue lost during downtime on the space plus leasing costs, which rise as market vacancies increase. Therefore, Parkway focuses a great deal of energy on customer retention. Parkway's operating philosophy is based on the premise that we are in the customer retention business. Parkway seeks to retain its customers by continually focusing on operations at its office properties. The Company believes in providing superior customer service; hiring, training, retaining and empowering each employee; and creating an environment of open communication both internally and externally with our customers and our stockholders. Over the past eight years, Parkway maintained an average 74.3% customer retention rate. Parkway's customer retention for the quarter ending September 30, 2005 was 69% compared to 79% for the quarter ending September 30, 2004.

Strategic Planning. For many years, Parkway has been engaged in a process of strategic planning and goal setting. The material goals and objectives of Parkway's earlier strategic plans have been achieved, and benefited Parkway's stockholders through increased FFO and dividend payments per share. Effective January 1, 2003, the Company adopted a three-year strategic plan referred to as VALUE² (Value Square). This plan reflects the employees' commitment to create value for its shareholders while holding firm to the core values as espoused in the Parkway Commitment to Excellence. The Company plans to create value by Venturing with best partners, Asset recycling, Leverage neutral growth, Uncompromising focus on operations and providing an Equity return to its shareholders that is 10% greater than that of its peer group, the National Association of Real Estate Investment Trusts ("NAREIT") office index. Equity return is defined as growth in funds from operations ("FFO") per diluted share.

The highlights of 2003, 2004 and 2005 reflect the strategy set forth in VALUE² as described below:

- ***Venture with Best Partners.*** During 2003 through 2005, we sold joint venture interests in seven office properties. Parkway continues to evaluate its existing portfolio for joint venture candidates and anticipates joint venturing more properties, as well as purchasing new properties with the intention of joint venturing them. During 2005, Parkway purchased two office buildings totaling \$28 million on behalf of the discretionary fund with Ohio Public Employees Retirement System.

- **Asset Recycling.** Parkway sold one office property, while maintaining a 10-year non-cancelable management contract, and a .74 acre parcel of land in 2003 and two office properties in 2005. Using the proceeds from the joint ventures, property sales, stock offerings and bank lines of credit, Parkway purchased four office buildings totaling \$125 million in 2003, three office buildings totaling \$150 million in 2004 and four office buildings totaling \$188 million in 2005.
- **Leverage Neutral Growth.** Parkway began 2003 with a debt to total market capitalization of 45% and operated 2003 and 2004 at an average of 41%. The decrease in debt to total market capitalization is a result of timing delays in reinvesting proceeds from joint ventures, asset sales and stock offerings in addition to a rising stock price. The Company anticipates that the debt to total market capitalization will average around 45% for the three years of VALUE². During 2003, the Company assumed one mortgage for \$20 million in connection with the Citrus Center purchase in Orlando, closed four mortgages for approximately \$97 million, issued 690,000 common shares for a net \$24 million, redeemed 2,650,000 shares of 8.75% Series A Preferred stock and issued 2.4 million shares of 8.0% Series D Preferred stock. During 2004, Parkway assumed two mortgages totaling \$78 million in connection with the Capital City Plaza purchase in Atlanta and the Squaw Peak Corporate Center purchase in Phoenix and placed three mortgages totaling \$81 million. During 2005, Parkway issued 1.6 million shares of common shares for a net \$76 million, assumed its proportionate share of a mortgage totaling \$100 million in connection with the purchase of a 70% interest in 233 North Michigan, assumed a mortgage totaling \$12 million in connection with the Forum I purchase and closed two mortgages totaling \$17 million on behalf of the discretionary fund with Ohio Public Employees Retirement System. As of September 30, 2005, the Company's debt-to-total market capitalization ratio was 45.2% as compared to 43.5% as of June 30, 2005 and 46.1% as of September 30, 2004.
- **Uncompromising Focus on Operations.** Recognizing that in this difficult real estate environment, operating efficiently and consistently is more important than ever, Parkway implemented the Uncompromising Focus on Operations ("UFO") program in the first quarter of 2003, whereby Parkway's Customer Advocate grades each property in all areas of consistency and high standards. This is done in conjunction with the Customer Advocate interviews with each customer each year. Parkway continues to focus on the basics of our business: customer retention, leasing, and controlling operating expenses and capital expenditures, to maintain our occupancy, all of which have the effect of maintaining and increasing net operating income.
- **Equity Returns to Shareholders 10% Greater than the NAREIT Office Index.** Parkway is 92% of the way through the VALUE² plan and has achieved this financial goal for 2003 and 2004. The Company's FFO growth for both years exceeded the FFO growth of the NAREIT Office Index by more than 10%. However, based on the results for the nine months ended September 30, 2005 and the projected results for the year ended December 31, 2005, it is unlikely that the Company will meet the equity return goal of the plan.

Upon the completion of the VALUE² Plan December 31, 2005, the Company expects to initiate a new operating plan that will be referred to as the "GEAR UP" Plan. This plan reflects the Company's commitment to "Raise the Bar" in delivering exceptional value to its shareholders. The Company plans to accomplish this by hiring, training and retaining **Great people**; maximizing **Equity Opportunities**, which refers to the judicious use of private and public equity including common equity, preferred equity, joint ventures and discretionary funds; continuing to focus on **Asset Recycling** with an added emphasis on the thoughtful, orderly disposition of select assets and/or select markets; maintaining the commitment to **Retain Customers** through delivery of exceptional customer service; and maintaining the **Uncompromising Focus on Operations** that has been a part of the Parkway culture for many years. We believe that focusing on these goals will allow Parkway to deliver superior **Performance** to our shareholders.

Discretionary Fund. On July 6, 2005, Parkway, through affiliated entities, entered into a limited partnership agreement forming a \$500 million discretionary fund with Ohio Public Employees Retirement System ("Ohio PERS") for the purpose of acquiring high-quality multi-tenant office properties. Ohio PERS will be a 75% investor and Parkway will be a 25% investor in the fund, which will be capitalized with approximately \$200 million of equity capital and \$300 million of non-recourse, fixed-rate first mortgage debt. The fund will target acquisitions in the existing core Parkway markets of Houston, Phoenix, Atlanta, Chicago, Charlotte, Orlando, Tampa/St. Petersburg, Ft. Lauderdale and Jacksonville.

The fund will target properties with a cash on cash return greater than 7% and a leveraged internal rate of return of greater than 11%. Parkway will serve as the general partner of the fund and will provide asset management, property management, leasing and construction management services to the fund, for which it will be paid market-based fees. After each partner has received a 10% annual cumulative preferred return and a return of invested capital, 20% of the excess cash flow will be paid to the general partner and 80% will be paid to the limited partners. Through its general partner and limited partner ownership interests, Parkway may receive a distribution of the cash flow equivalent to 40%. Parkway will have three years to identify and acquire properties for the fund (the "Commitment Period"), with funds contributed as needed to close acquisitions. Parkway will exclusively represent the fund in making acquisitions within the target markets and within certain predefined criteria. Parkway will not be prohibited from making fee-simple or joint venture acquisitions in markets outside of the target markets, acquiring properties within the target markets that do not meet the fund's specific criteria or selling or joint venturing any currently owned properties. The term of the fund will be seven years from the expiration of the Commitment Period, with provisions to extend the term for two additional one-year periods.

Financial Condition

Comments are for the balance sheet dated September 30, 2005 compared to the balance sheet dated December 31, 2004.

Office and Parking Properties. In 2005, Parkway continued the application of its strategy of operating and acquiring office properties, joint venturing interests in office assets, as well as liquidating non-core assets and office assets that no longer meet the Company's investment criteria and/or the Company has determined value will be maximized by selling. During the nine months ending September 30, 2005, total assets increased \$259 million and office and parking properties, and parking development (before depreciation) increased \$236 million or 24.4%.

Purchases, Dispositions and Improvements

Parkway's direct investment in office and parking properties increased \$209 million net of depreciation to a carrying amount of \$1 billion at September 30, 2005, and consisted of 58 office and parking properties. The primary reason for the net increase in office and parking properties relates to the purchase of five office properties, the purchase of an additional 70% interest in an office property, the sale of two office properties and the transfer of an 80% interest in one office property through a joint venture.

On January 5, 2005, the Company entered into an agreement to purchase the 70% interest held by Investcorp International, Inc., its joint venture partner, in the property known as 233 North Michigan Avenue in Chicago, Illinois. The gross purchase price for the 70% interest was \$139.7 million, and the Company closed the investment in two stages. The Company closed 90% of the purchase on January 14, 2005. The second closing for the remainder of Investcorp's interest occurred on April 29, 2005, following lender and rating agency approval. The Company earned a \$400,000 incentive fee from Investcorp based upon the economic returns generated over the life of the partnership. The purchase was funded with a portion of the proceeds from the sale of 1.6 million shares of common stock to Citigroup Global Markets Inc. on January 10, 2005 and the assumption of an existing first mortgage on the property.

On March 30, 2005, the Company purchased for \$29.3 million the Stein Mart Building and Riverplace South office buildings in downtown Jacksonville, Florida. In addition to the purchase price the Company expects to invest an additional \$4.8 million in improvements and closing costs during the first two years of ownership. The buildings, which total 302,000 square feet, are 96.3% leased. The purchase was funded with the remaining proceeds from the Company's January 2005 equity offering as well as funds obtained under its existing line of credit.

On June 16, 2005, the Company closed the joint venture of Maitland 200 to Rubicon America Trust ("Rubicon"), an Australian listed property trust. Maitland 200 is a 203,000 square foot, 96.5% leased office property located in Orlando, Florida. The consideration places total building value at \$28.4 million. Rubicon acquired an 80% interest in the single purpose entity that owns the property and assumed 100% of the existing \$19.3 million, 4.4% first mortgage. Parkway received a \$947,000 acquisition fee at closing and retained management and leasing of the property and a 20% ownership interest. Parkway recognized a gain for financial reporting purposes on the transfer of the 80% interest of \$1.3 million in the second quarter. The joint venture is accounted for using the equity method of accounting.

On July 26, 2005, the Company purchased for \$19.25 million the Forum I office building in Memphis, Tennessee. In addition to the purchase price, the Company expects to invest an additional \$1.9 million in improvements and closing costs during the first two years of ownership. The building, which totals 162,000 square feet, is currently 88% leased. The purchase was funded with the Company's existing lines of credit and the assumption of an \$11.7 million first mortgage.

On September 9, 2005, the Company sold The Park on Camelback, a 102,000 square foot office property located in Phoenix, Arizona, to an unrelated third party for \$17.5 million. The Company recorded a gain on the sale for financial reporting purposes of \$4,419,000 in the third quarter of 2005. In accordance with generally accepted accounting principles ("GAAP"), all current and prior period income from the office property has been classified as discontinued operations.

On September 14, 2005, the Company sold 250 Commonwealth, a 46,000 square foot office property located in Greenville, South Carolina, to an unrelated third party for \$4,020,000. The Company recorded a loss on the sale for financial reporting purposes of \$238,000 in the third quarter of 2005. In accordance with GAAP, all current and prior period income from the office property has been classified as discontinued operations.

On September 28, 2005, the discretionary fund the Company has with Ohio PERS purchased a two-building office portfolio in Orlando, Florida. Parkway is a 25% investor and Ohio PERS is a 75% investor in the fund. The two properties total 230,000 square feet and are currently 77% occupied. Maitland 100 is a three-story, 128,000 square foot office project and 555 Winderley Place, is a four-story, 102,000 square foot office project. The two buildings were acquired for a combined purchase price of \$28,417,000. The fund expects to spend an additional \$3,337,000 for closing costs, building improvements, leasing costs and tenant improvements during the first two years of ownership. The purchase was funded with a \$17,160,000 first mortgage placement by the fund and with equity contributions from the partners. Parkway Realty Services will provide management and renewal leasing services through its existing team in Orlando. New leasing services will be provided by an unaffiliated third-party leasing agency. In accordance with GAAP, Parkway has included the discretionary fund in its consolidated financial statements.

During the nine months ending September 30, 2005, the Company capitalized building improvements, development costs and additional purchase expenses of \$24.7 million and recorded depreciation expense of \$29.7 million related to its office and parking properties.

Land Available for Sale. During the quarter ending June 30, 2005, Parkway recorded an impairment loss of \$340,000 on approximately 12 acres of land in New Orleans, Louisiana. The loss was computed based on market research and comparable sales in the area. However, during the quarter ending September 30, 2005, the city of New Orleans sustained considerable damage as a result of Hurricane Katrina. Currently, the Company is unable to assess the damage, if any, to the 12 acres of land owned in New Orleans or whether the value of the land is impaired. As of September 30, 2005, the land available for sale in New Orleans totaled \$1,467,000 or .1% of total assets.

Investment in Unconsolidated Joint Ventures. Investment in unconsolidated joint ventures decreased \$12.5 million during the nine months ended September 30, 2005 due to the net effect of the consolidation of 233 North Michigan effective January 14, 2005 and the transfer of an 80% interest in Maitland 200 to a joint venture effective June 16, 2005. Included in investment in unconsolidated joint ventures is Parkway's 50% investment in a one-story, 32,000 square foot office building in East New Orleans, which totaled \$500,000 or .04% of total assets as of September 30, 2005. The building is 100% leased by the Company's partner through 2009. Parkway has been able to assess the physical damage to the building as a result of Hurricane Katrina and expects that damages will be covered by insurance. Therefore, the Company does not believe that the investment in the joint venture has been impaired.

Rents Receivable and Other Assets. Rents receivable and other assets increased \$25 million for the nine months ending September 30, 2005. The increase is primarily attributable to the increase in straight line rent receivable of \$2.8 million, unamortized lease costs due to the purchase of office properties in 2005 and an increase in escrow bank account balances. In 2005, the total purchase price allocated to lease costs was \$9.2 million. The increase in escrow bank account balances of \$9.6 million is primarily due to current period escrow deposit requirements for consolidated properties and due to the consolidation of 233 North Michigan as a result of purchasing the remaining 70% interest in the property in 2005.

Intangible Assets, Net. For the nine months ending September 30, 2005, intangible assets net of related amortization increased \$22 million and was primarily due to the allocation of the purchase price of 2005 office property acquisitions to above market in-place leases and the value of in-place leases. In 2005, the total purchase price allocated to above market in-place leases and the value of in-place leases was \$14 million and \$19.4 million, respectively. Additionally, in connection with the transfer of the 80% joint venture interest in Maitland 200, intangible assets disposed totaled \$5.5 million. Parkway accounts for its acquisitions of real estate in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations", which requires the fair value of the real estate acquired to be allocated to acquired tangible and intangible assets.

Cash and Cash Equivalents. During the nine months ending September 30, 2005, cash and cash equivalents increased \$17.9 million. The increase is primarily attributable to funds received on September 29, 2005 as a result of the placement of a \$17.2 million mortgage in the discretionary fund with Ohio PERS. Subsequent to September 30, 2005, approximately \$13 million was distributed to Ohio PERS as a return of equity.

Notes Payable to Banks. Notes payable to banks increased \$41.5 million or 39.7% during the nine months ended September 30, 2005. At September 30, 2005, notes payable to banks totaled \$146.1 million and the increase is primarily attributable to advances under bank lines of credit to purchase additional properties and make improvements to office properties.

Mortgage Notes Payable. During the nine months ended September 30, 2005, mortgage notes payable increased \$109.5 million or 30.9%. The increase is due to the following factors (in thousands):

	Increase (Decrease)
Acquisition of properties subject to first mortgages	\$ 124,530
Placement of mortgage debt in discretionary fund	17,160
Transfer mortgage to joint venture	(19,275)
Scheduled principal payments	(12,941)
	<u>\$ 109,474</u>

The purchase of the 70% interest in 233 North Michigan Avenue was subject to an existing non-recourse first mortgage with an outstanding balance of \$100 million, which matures July 2011 and carries a fixed interest rate of 7.21%. In accordance with GAAP, the mortgage was recorded at \$111.7 million to reflect the fair value of the financial instrument based on the market rate of 4.94% on the date of purchase.

On June 16, 2005, Parkway transferred an 80% joint venture interest in Maitland 200 to Rubicon. In addition to acquiring an 80% interest in the single purpose entity that owns the property, Rubicon assumed 100% of the existing \$19.3 million, 4.4% first mortgage. Therefore, this mortgage was transferred to the Maitland Joint Venture as of June 16, 2005.

In connection with the purchase of Forum I in Memphis, Tennessee on July 26, 2005, Parkway assumed an \$11.7 million fixed rate mortgage, of which \$5 million is recourse debt. The mortgage matures in June 2011 and bears interest at 7.31%. In accordance with GAAP, the mortgage was recorded at \$12.8 million to reflect the fair value of the financial instrument based on the rate of 5.25% on the date of purchase.

In connection with the purchase of Maitland 100 and 555 Winderley Place by the discretionary fund with Ohio PERS, on September 29, 2005, the fund placed a \$17,160,000 seven-year first mortgage at a fixed interest rate of 4.92%. Payments during the first five years of the mortgage term will be on an interest-only basis, and the loan includes provisions for two one-year extensions.

The Company expects to continue seeking fixed rate, non-recourse mortgage financing at terms ranging from five to ten years typically amortizing over 25 to 30 years on select office building investments as additional capital is needed. The Company targets a debt to total market capitalization rate at a percentage in the mid-40's. This rate may vary at times pending acquisitions, sales and/or equity offerings. In addition, volatility in the price of the Company's common stock may affect the debt to total market capitalization ratio. However, over time the Company plans to maintain a percentage in the mid-40's. In addition to this debt ratio, the Company monitors interest and fixed charge coverage ratios. The interest coverage ratio is computed by comparing the cash interest accrued to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The fixed charge coverage ratio is computed by comparing the cash interest accrued, principal payments made on mortgage loans and preferred dividends paid to EBITDA.

The computation of the interest and fixed charge coverage ratios and the reconciliation of net income to EBITDA is as follows for the nine months ended September 30, 2005 and 2004 (in thousands):

	Nine Months Ended September 30	
	2005	2004
Net income	\$ 18,854	\$ 18,839
Adjustments to net income:		
Interest expense	24,620	17,600
Amortization of financing costs	952	736
Prepayment expenses - early extinguishment of debt	-	130
Depreciation and amortization	37,425	26,272
Depreciation and amortization – discontinued operations	343	369
Amortization of deferred compensation	351	590
Gain on sale of joint venture interest, real estate and note receivable	(5,146)	(774)
Tax expenses	8	-
EBITDA adjustments - unconsolidated joint ventures	1,922	4,396
EBITDA adjustments - minority interest in real estate partnerships	(1,517)	(1,329)
EBITDA (1)	<u>\$ 77,812</u>	<u>\$ 66,829</u>
Interest coverage ratio:		
EBITDA	<u>\$ 77,812</u>	<u>\$ 66,829</u>
Interest expense:		
Interest expense	\$ 24,620	\$ 17,600
Capitalized interest	52	6
Interest expense - unconsolidated joint ventures	1,032	2,176
Interest expense - minority interest in real estate partnerships	(907)	(821)
Total interest expense	<u>\$ 24,797</u>	<u>\$ 18,961</u>
Interest coverage ratio	<u>3.14</u>	<u>3.52</u>
Fixed charge coverage ratio:		
EBITDA	<u>\$ 77,812</u>	<u>\$ 66,829</u>
Fixed charges:		
Interest expense	\$ 24,797	\$ 18,961
Preferred dividends	5,359	7,722
Preferred distributions - unconsolidated joint ventures	21	384
Principal payments (excluding early extinguishment of debt)	12,941	9,630
Principal payments - unconsolidated joint ventures	98	471
Principal payments - minority interest in real estate partnerships	(423)	(330)
Total fixed charges	<u>\$ 42,793</u>	<u>\$ 36,838</u>
Fixed charge coverage ratio	<u>1.82</u>	<u>1.81</u>

(1) EBITDA, a non-GAAP financial measure, means operating income before mortgage and other interest expense, income taxes, depreciation and amortization. We believe that EBITDA is useful to investors and Parkway's management as an indication of the Company's ability to service debt and pay cash distributions. EBITDA, as calculated by us, is not comparable to EBITDA reported by other REITs that do not define EBITDA exactly as we do. EBITDA does not represent cash generated from operating activities in accordance with generally accepted accounting principles, and should not be considered an alternative to operating income or net income as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of liquidity.

Accounts Payable and Other Liabilities. Accounts payable and other liabilities increased \$32.1 million for the nine months ending September 30, 2005 primarily due to the impact of consolidating 233 North Michigan as a result of purchasing the remaining 70% interest in the property in 2005 of \$12 million and the return of equity payable to Ohio PERS in connection with the discretionary fund in the amount of \$13 million. Additionally, the total purchase price for 2005 acquisitions allocated to below market leases was \$5.5 million for the nine months ending September 30, 2005.

Minority Interest – Real Estate Partnerships. During the nine months ending September 30, 2005, minority interest associated with real estate partnerships increased \$9.5 million. The increase is attributable to the formation of the discretionary fund with Ohio PERS and represents Ohio PERS' minority interest share of the discretionary fund.

Stockholders' Equity. Stockholders' equity increased \$66.7 million during the nine months ended September 30, 2005, as a result of the following (in thousands):

	Increase (Decrease)
Net income	\$ 18,854
Change in unrealized gain on equity securities	7
Change in market value of interest rate swaps	859
Comprehensive income	19,720
Common stock dividends declared	(27,380)
Preferred stock dividends declared	(5,359)
Shares issued through stock offering	75,811
Exercise of stock options	1,794
Amortization of unearned compensation	351
Shares issued through DRIP plan	1,361
Shares distributed from deferred compensation plan	202
Shares issued in lieu of Directors' fees	193
	<u>\$ 66,693</u>

On January 10, 2005, the Company sold 1,600,000 shares of common stock to Citigroup Global Markets Inc. The Company used the net proceeds of \$76 million towards the acquisition of the 70% interest held by its joint venture partner in the property known as 233 North Michigan Avenue in Chicago, IL and the acquisition of two properties in Jacksonville, FL.

Results of Operations

Comments are for the three months and nine months ended September 30, 2005 compared to the three months and nine months ended September 30, 2004.

Net income available to common stockholders for the three months ended September 30, 2005, was \$6,714,000 (\$.48 per basic common share) as compared to \$2,601,000 (\$.23 per basic common share) for the three months ended September 30, 2004. Net income available to common stockholders for the nine months ended September 30, 2005 was \$13,495,000 (\$.96 per basic common share) compared to \$11,117,000 (\$1.00 per basic common share) for the nine months ended September 30, 2004. Net income included a net gain from the sale of real estate of \$4,155,000 for the three months ended September 30, 2005 and a net gain on the sale of real estate and joint venture interest of \$5,486,000 and an impairment loss on land of \$340,000 for the nine months ended September 30, 2005. Net income included a gain on a note receivable in the amount of \$774,000 for the nine months ended September 30, 2004.

Office and Parking Properties. The primary reason for the change in the Company's net income from office and parking properties for 2005 as compared to 2004 is the net effect of the operations of the following properties purchased and joint venture interests sold (in thousands):

Properties Purchased:

<u>Office Properties</u>	<u>Purchase Date</u>	<u>Square Feet</u>
Maitland 200	01/29/04	203
Capital City Plaza	04/02/04	408
Squaw Peak Corporate Center	08/24/04	287
233 North Michigan(63% interest)	01/14/05	1,070
233 North Michigan(7% interest)	04/29/05	-
Stein Mart Building	03/30/05	197
Riverplace South	03/30/05	105
Forum I	07/26/05	162

Joint Venture Interests Transferred:

<u>Office Property/Interest Sold</u>	<u>Date Sold</u>	<u>Square Feet</u>
Falls Point, Lakewood & Carmel Crossing/80%	12/14/04	550
Maitland 200/80%	06/16/05	203

Properties Sold:

<u>Office Properties</u>	<u>Date Sold</u>	<u>Square Feet</u>
The Park on Camelback	09/09/05	102
250 Commonwealth	09/14/05	46

Operations of office and parking properties are summarized below (in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Income	\$ 48,030	\$ 41,453	\$ 142,590	\$ 117,301
Operating expense	(23,200)	(19,209)	(66,475)	(54,792)
	24,830	22,244	76,115	62,509
Interest expense	(6,798)	(5,338)	(20,518)	(15,441)
Depreciation and amortization	(11,687)	(10,587)	(37,425)	(26,272)
Income from office and parking properties	<u>\$ 6,345</u>	<u>\$ 6,319</u>	<u>\$ 18,172</u>	<u>\$ 20,796</u>

Management Company Income. The increase in management company income of \$1,327,000 for the nine months ending September 30, 2005 compared to the nine months ending September 30, 2004 is primarily due to the acquisition fee earned on the Maitland 200 joint venture of \$947,000 plus the \$400,000 incentive fee earned by Parkway in connection with the economic returns generated over the life of the 233 North Michigan partnership with Investcorp.

Interest Expense. The \$5,077,000 increase in interest expense on office properties for the nine months ended September 30, 2005 compared to the same period in 2004 is due to the net effect of the early extinguishment of two mortgages in 2004, new loans assumed or placed in 2004 and 2005, the transfer of a mortgage in connection with the sale of a joint venture interest in 2005 and the issuance of subsidiary redeemable preferred membership interests in 2004. The average interest rate on mortgage notes payable as of September 30, 2005 and 2004 was 5.7% and 6.0% respectively.

Interest expense on bank notes increased \$2,029,000 for the nine months ended September 30, 2005 compared to the same period in 2004. The change is primarily due to the increase in the weighted average interest rate on bank lines of credit from 3.2% during the nine months ended September 30, 2004 to 4.4% during the same period in 2005.

Liquidity and Capital Resources

Statement of Cash Flows

Cash and cash equivalents were \$18,955,000 and \$1,077,000 at September 30, 2005 and December 31, 2004, respectively. Cash flows provided by operating activities for the nine months ending September 30, 2005 were \$59,549,000 compared to \$43,672,000 for the same period of 2004. The change in cash flows from operating activities is primarily attributable to the increase in operating income from office and parking properties net of the effect of the timing of receipt of revenues and payment of expenses.

Cash used in investing activities was \$143,531,000 for the nine months ended September 30, 2005 compared to cash used in investing activities of \$94,975,000 for the same period of 2004. The decrease in cash provided by investing activities of \$48,556,000 is primarily due to increased office property purchases, parking development and improvements in 2005.

Cash provided by financing activities was \$101,860,000 for the nine months ended September 30, 2005 compared to cash provided by financing activities of \$51,651,000 for the same period of 2004. The increase in cash

provided by financing activities of \$50,209,000 is primarily due to the proceeds received from a stock offering in 2005 to fund office property purchases.

Liquidity

The Company plans to continue pursuing the acquisition of additional investments that meet the Company's investment criteria and intends to use bank lines of credit, proceeds from the sale of non-core assets and office properties, proceeds from the sale of portions of owned assets through joint ventures, possible sales of securities and cash balances to fund those acquisitions. At September 30, 2005, the Company had \$146,119,000 outstanding under three unsecured bank lines of credit.

The Company's cash flows are exposed to interest rate changes primarily as a result of its lines of credit used to maintain liquidity and fund capital expenditures and expansion of the Company's real estate investment portfolio and operations. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at fixed rates, but also utilizes a three-year unsecured revolving credit facility and two one-year unsecured lines of credit.

On March 31, 2005, Parkway entered into an amended Credit Agreement with a consortium of 10 banks with Wachovia Capital Markets, LLC as Sole Lead Arranger and Sole Book Runner, Wachovia Bank, National Association as Administrative Agent, PNC Bank, National Association as Syndication Agent, and other banks as participants. The amended Credit Agreement provides for a three-year \$190 million unsecured revolving credit facility (the "\$190 million line"). The \$190 million line replaces the previous \$170 million unsecured revolving credit facility. The interest rate on the \$190 million line is equal to the 30-day LIBOR rate plus 100 to 150 basis points, depending upon overall Company leverage (with the current rate set at LIBOR plus 132.5 basis points). The interest rate on the \$190 million line was 4.9% at September 30, 2005.

The \$190 million line matures February 6, 2007 and allows for a one-year extension option available at maturity. The line is expected to fund acquisitions of additional investments. The Company paid a facility fee of \$170,000 (10 basis points) and origination fees of \$556,000 (32.71 basis points) upon closing of the original loan agreement and pays an annual administration fee of \$35,000. The Company also pays fees on the unused portion of the line based upon overall Company leverage, with the current rate set at 12.5 basis points.

On February 4, 2005, Parkway amended and renewed the one-year \$15 million unsecured line of credit with PNC Bank (the "\$15 million line"). This line of credit matures February 2, 2006, is unsecured and is expected to fund the daily cash requirements of the Company's treasury management system. The interest rate on the \$15 million line is equal to the 30-day LIBOR rate plus 100 to 150 basis points, depending upon overall Company leverage (with the current rate set at LIBOR plus 132.5 basis points). The interest rate on the \$15 million line was 5.2% at September 30, 2005. The Company paid a facility fee of \$15,000 (10 basis points) upon closing of the loan agreement. Under the \$15 million line, the Company does not pay annual administration fees or fees on the unused portion of the line.

On December 7, 2004, the Company closed a \$9 million unsecured line of credit with Trustmark National Bank (the "\$9 million line"). The interest rate on the \$9 million line is equal to the 30-day LIBOR rate plus 132.5 basis points and was 5% at September 30, 2005. This line of credit matures December 7, 2005 and the proceeds were used to fund the construction of the City Centre Garage.

The Company's interest rate hedge contracts as of September 30, 2005 are summarized as follows (in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap	\$20,000	12/31/05	1-Month LIBOR	3.183%	\$ 45
Swap	\$40,000	06/30/06	1-Month LIBOR	3.530%	238
Swap	\$40,000	12/31/08	1-Month LIBOR	4.360%	204
Swap	\$20,000	12/31/08	1-Month LIBOR	4.245%	146
					<u>\$ 633</u>

To protect against the potential for rapidly rising interest rates, the Company entered into two interest rate swap agreements in May 2004. The first interest rate swap agreement is for a \$40 million notional amount and fixed the

30-day LIBOR interest rate at 3.53%, which equates to a total interest rate of 4.855%, for the period January 1, 2005 through June 30, 2006. The second interest rate swap agreement is for a \$20 million notional amount and fixed the 30-day LIBOR interest rate at 3.18%, which equates to a total interest rate of 4.508%, for the period January 1, 2005 through December 31, 2005. The Company designated the swaps as hedges of the variable interest rates on the Company's borrowings under the \$190 million line. Accordingly, changes in the fair value of the swap are recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

During the quarter ending September 30, 2005, the Company entered into two interest rate swap agreements. The first interest rate swap is for a \$40 million notional amount and fixes the 30-day LIBOR interest rate at 4.36%, which equates to a total interest rate of 5.685%, for the period January 1, 2006 through December 31, 2008. The second interest rate swap is for a \$20 million notional amount and fixes the 30-day LIBOR interest rate at 4.245%, which equates to a total interest rate of 5.57%, for the period July 1, 2006 through December 31, 2008. The swap agreements serve as a hedge of the variable interest rates on borrowings under the Company's \$190 million line of credit.

At September 30, 2005, the Company had \$463,449,000 of fixed rate mortgage notes payable with an average interest rate of 5.7% secured by office properties and \$146,119,000 drawn under bank lines of credit. The minority interest partners' share of mortgage notes payable was \$25,923,000 at September 30, 2005. Parkway's pro rata share of unconsolidated joint venture debt was \$24,914,000 with an average interest rate of 5.5% at September 30, 2005. Based on the Company's total market capitalization of approximately \$1.4 billion at September 30, 2005 (using the September 30, 2005 closing price of \$46.92 per common share), the Company's debt represented approximately 45.2% of its total market capitalization. The Company targets a debt to total market capitalization rate at a percentage in the mid-40's. This rate may vary at times pending acquisitions, sales and/or equity offerings. In addition, volatility in the price of the Company's common stock may affect the debt to total market capitalization ratio. However, over time the Company plans to maintain a percentage in the mid-40's. In addition to this debt ratio, the Company monitors interest and fixed charge coverage ratios. The interest coverage ratio is computed by comparing the cash interest accrued to earnings before interest, taxes, depreciation and amortization. This ratio for the nine months ending September 30, 2005 and 2004 was 3.14 and 3.52 times, respectively. The fixed charge coverage ratio is computed by comparing the cash interest accrued, principal payments made on mortgage loans and preferred dividends paid to earnings before interest, taxes, depreciation and amortization. This ratio for the nine months ending September 30, 2005 and 2004 was 1.82 and 1.81 times, respectively.

The table below presents the principal payments due and weighted average interest rates for the fixed rate debt.

	<u>Average Interest Rate</u>	<u>Fixed Rate Debt (In thousands)</u>
2005*	5.74%	\$ 5,297
2006	5.72%	20,393
2007	5.68%	39,220
2008	5.75%	102,799
2009	5.80%	35,064
2010	5.52%	96,254
Thereafter	7.49%	164,422
Total		<u>\$ 463,449</u>
Fair value at 09/30/05		<u>\$ 473,739</u>

*Remaining three months

The Company presently has plans to make additional capital improvements at its office properties in 2005 of approximately \$11.2 million. These expenses include tenant improvements, capitalized acquisition costs and capitalized building improvements. Approximately \$3.6 million of these improvements relate to upgrades on properties acquired in recent years that were anticipated at the time of purchase. All such improvements are expected to be financed by cash flow from the properties and advances on the bank lines of credit.

The Company anticipates that its current cash balance, operating cash flows, proceeds from the sale of office properties, proceeds from the sale of portions of owned assets through joint ventures, possible sales of securities and borrowings (including borrowings under the working capital line of credit) will be adequate to pay the Company's (i) operating and administrative expenses, (ii) debt service obligations, (iii) distributions to shareholders, (iv) capital

improvements, and (v) normal repair and maintenance expenses at its properties, both in the short and long term.

Contractual Obligations

See information appearing under the caption “Financial Condition – Mortgage Notes Payable” in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of changes in long-term debt since December 31, 2004. There are no other material changes in Parkway’s fixed contractual obligations since December 31, 2004.

Funds From Operations

Management believes that funds from operations (“FFO”) is an appropriate measure of performance for equity REITs and computes this measure in accordance with the National Association of Real Estate Investment Trusts’ (“NAREIT”) definition of FFO. FFO as reported by Parkway may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition. We believe FFO is helpful to investors as a supplemental measure that enhances the comparability of our operations by adjusting net income for items not reflective of our principal and recurring operations. In addition, FFO has widespread acceptance and use within the REIT and analyst communities. Funds from operations is defined by NAREIT as net income (computed in accordance with generally accepted accounting principles “GAAP”), excluding gains or losses from sales of property and extraordinary items under GAAP, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. We believe that in order to facilitate a clear understanding of our operating results, FFO should be examined in conjunction with the net income as presented in our consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. Funds from operations do not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States and is not an indication of cash available to fund cash needs. Funds from operations should not be considered an alternative to net income as an indicator of the Company’s operating performance or as an alternative to cash flow as a measure of liquidity.

The following table presents a reconciliation of the Company’s net income to FFO for the three months and nine months ended September 30, 2005 and 2004 (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Net income	\$ 8,500	\$ 5,151	\$ 18,854	\$ 18,839
Adjustments to derive funds from operations:				
Depreciation and amortization	11,687	10,587	37,425	26,272
Depreciation and amortization – discontinued operations	27	135	343	369
Minority interest depreciation and amortization	(168)	(164)	(591)	(490)
Adjustments for unconsolidated joint ventures	266	616	781	1,724
Preferred dividends	(1,200)	(1,200)	(3,600)	(3,600)
Convertible preferred dividends	(586)	(1,350)	(1,759)	(4,122)
Gain on sale of joint venture interest and real estate	(4,181)	-	(5,512)	-
Other	-	1	1	2
Funds from operations applicable to common shareholders	<u>\$ 14,345</u>	<u>\$ 13,776</u>	<u>\$ 45,942</u>	<u>\$ 38,994</u>

Inflation

In the last five years, inflation has not had a significant impact on the Company because of the relatively low inflation rate in the Company’s geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company’s exposure to increases in operating expenses resulting from inflation. In addition, the Company’s leases typically have three to seven-year terms, which may enable the Company to replace existing leases with new leases at market base rent, which may be higher or lower than the existing lease rate.

Forward-Looking Statements

In addition to historical information, certain sections of this Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those that are not in the present or past tense, that discuss the Company's beliefs, expectations or intentions or those pertaining to the Company's capital resources, profitability and portfolio performance and estimates of market rental rates. Forward-looking statements involve numerous risks and uncertainties. The following factors, among others discussed herein and in the Company's filings under the Securities Exchange Act of 1934, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: defaults or non-renewal of leases, increased interest rates and operating costs, failure to obtain necessary outside financing, difficulties in identifying properties to acquire and in effecting acquisitions, failure to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended, environmental uncertainties, risks related to natural disasters, financial market fluctuations, changes in real estate and zoning laws and increases in real property tax rates. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form 10-Q and in the Company's filings under the Securities Exchange Act of 1934. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

See information appearing under the caption "Liquidity" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the Company's most recent fiscal quarter, the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

During the period covered by this report, the Company reviewed its internal controls, and there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits.

- 10.1 Limited Partnership Agreement of Parkway Properties Office Fund, L.P. by and among PKY Fund, LLC, Parkway Properties L.P. and PERS Holding Company Limited, L.L.C. (incorporated by reference to the Registrant's Form 8-K Filed July 7, 2005).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

DATE: November 4, 2005

PARKWAY PROPERTIES, INC.

BY: /s/ Mandy M. Pope
Mandy M. Pope, CPA
Senior Vice President and
Chief Accounting Officer