

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, 2002

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

(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

9,372,619 shares of Common Stock, \$.001 par value, were outstanding as of November 8, 2002.

PARKWAY PROPERTIES, INC.

FORM 10-Q

**TABLE OF CONTENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2002**

| | <u>Pages</u> |
|--|--------------|
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| Consolidated Balance Sheets, September 30, 2002 and December 31, 2001 | 3 |
| Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2002 and 2001..... | 4 |
| Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2002 and 2001..... | 6 |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001..... | 7 |
| Notes to Consolidated Financial Statements | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 20 |
| Item 4. Controls and Procedures..... | 20 |
| Part II. Other Information | |
| Item 6. Exhibits and Reports on Form 8-K..... | 21 |
| Signatures | |
| Authorized Signatures..... | 22 |
| Certifications | |
| Section 302 Certifications | 23 |

PARKWAY PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands except share and per share data)

| | September 30 2002 | December 31 2001 |
|--|------------------------------|-----------------------------|
| | (Unaudited) | |
| Assets | | |
| Real estate related investments: | | |
| Office and parking properties | \$803,856 | \$875,889 |
| Accumulated depreciation | (93,912) | (80,029) |
| | 709,944 | 795,860 |
| Land available for sale | 3,733 | 3,733 |
| Note receivable from Moore Building Associates LP | 5,996 | 6,942 |
| Mortgage loans | 871 | 877 |
| Investment in unconsolidated joint ventures | 16,037 | 416 |
| | 736,581 | 807,828 |
| Interest, rents receivable and other assets | 27,115 | 30,326 |
| Cash and cash equivalents | 3,509 | 2,458 |
| | \$767,205 | \$840,612 |
| Liabilities | | |
| Notes payable to banks | \$133,442 | \$126,044 |
| Mortgage notes payable without recourse | 220,574 | 304,985 |
| Accounts payable and other liabilities | 33,913 | 34,002 |
| | 387,929 | 465,031 |
| Stockholders' Equity | | |
| 8.75% Series A Preferred stock, \$.001 par value, 2,750,000 shares authorized and 2,650,000 shares issued and outstanding | 66,250 | 66,250 |
| 8.34% Series B Cumulative Convertible Preferred stock, \$.001 par value, 2,142,857 shares authorized, issued and outstanding | 75,000 | 75,000 |
| Series C Preferred stock, \$.001 par value, 400,000 shares authorized, no shares issued | - | - |
| Common stock, \$.001 par value, 64,707,143 shares authorized, 9,309,342 and 9,249,954 shares issued and outstanding in 2002 and 2001, respectively | 9 | 9 |
| Excess stock, \$.001 par value, 30,000,000 shares authorized, no shares issued | - | - |
| Additional paid-in capital | 199,575 | 196,032 |
| Unearned compensation | (548) | (2,190) |
| Accumulated other comprehensive loss | (666) | (1,694) |
| Retained earnings | 39,656 | 42,174 |
| | 379,276 | 375,581 |
| | \$767,205 | \$840,612 |

See notes to consolidated financial statements.

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

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | September 30 | |
| | 2002 | 2001 |
| | (Unaudited) | |
| Revenues | | |
| Income from office and parking properties | \$36,747 | \$36,967 |
| Management company income | 367 | 188 |
| Interest on note receivable from Moore Building Associates LP | 207 | 209 |
| Incentive management fee from Moore Building Associates LP | 93 | 61 |
| Equity in earnings of unconsolidated joint ventures | 322 | 16 |
| Other income and deferred gains | 39 | 36 |
| | <u>37,775</u> | <u>37,477</u> |
| Expenses | | |
| Office and parking properties: | | |
| Operating expense | 16,512 | 15,691 |
| Interest expense: | | |
| Contractual | 4,060 | 5,977 |
| Amortization of loan costs | 46 | 68 |
| Depreciation and amortization | 6,644 | 6,441 |
| Operating expense for other real estate properties | 9 | 9 |
| Interest expense on bank notes: | | |
| Contractual | 1,585 | 1,018 |
| Amortization of loan costs | 169 | 182 |
| Management company expenses | 102 | 96 |
| General and administrative | 1,079 | 1,160 |
| | <u>30,206</u> | <u>30,642</u> |
| Net income | 7,569 | 6,835 |
| Change in market value of interest rate swaps | 401 | (934) |
| Comprehensive income | <u>\$ 7,970</u> | <u>\$ 5,901</u> |
| Net income available to common stockholders: | | |
| Net income | \$ 7,569 | \$ 6,835 |
| Dividends on preferred stock | (1,450) | (1,450) |
| Dividends on convertible preferred stock | (1,564) | (1,555) |
| Net income available to common stockholders | <u>\$ 4,555</u> | <u>\$ 3,830</u> |
| Net income per common share: | | |
| Basic | <u>\$ 0.49</u> | <u>\$ 0.41</u> |
| Diluted | <u>\$ 0.48</u> | <u>\$ 0.40</u> |
| Dividends per common share | <u>\$ 0.65</u> | <u>\$ 0.63</u> |
| Weighted average shares outstanding: | | |
| Basic | <u>9,329</u> | <u>9,362</u> |
| Diluted | <u>9,493</u> | <u>9,490</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 | |
| | 2002 | 2001 |
| | (Unaudited) | |
| Revenues | | |
| Income from office and parking properties | \$115,758 | \$97,674 |
| Dividend income | - | 495 |
| Management company income | 851 | 624 |
| Interest on note receivable from Moore Building Associates LP | 689 | 642 |
| Incentive management fee from Moore Building Associates LP | 253 | 181 |
| Equity in earnings of unconsolidated joint ventures | 471 | 45 |
| Other income and deferred gains | 362 | 193 |
| | <u>118,384</u> | <u>99,854</u> |
| Expenses | | |
| Office and parking properties: | | |
| Operating expense | 49,974 | 40,998 |
| Interest expense: | | |
| Contractual | 14,777 | 14,500 |
| Amortization of loan costs | 186 | 170 |
| Depreciation and amortization | 20,697 | 16,916 |
| Operating expense for other real estate properties | 26 | 27 |
| Interest expense on bank notes: | | |
| Contractual | 4,520 | 3,555 |
| Amortization of loan costs | 418 | 499 |
| Management company expenses | 353 | 212 |
| General and administrative | 3,660 | 3,511 |
| | <u>94,611</u> | <u>80,388</u> |
| Income before gain (loss), minority interest, discontinued operations and extraordinary item | 23,773 | 19,466 |
| Gain (loss) on sale of joint venture interest, real estate and real estate equity securities | (269) | 1,611 |
| Minority interest - unit holders | (1) | (2) |
| | <u>23,503</u> | <u>21,075</u> |
| Income before discontinued operations and extraordinary item | 23,503 | 21,075 |
| Discontinued operations: | | |
| Income from discontinued operations | 47 | - |
| Gain on sale of real estate from discontinued operations | 770 | - |
| | <u>24,320</u> | <u>21,075</u> |
| Income before extraordinary item | 24,320 | 21,075 |
| Extraordinary loss on early extinguishment of mortgage note payable | (18) | - |
| | <u>24,302</u> | <u>21,075</u> |
| Net income | 24,302 | 21,075 |
| Change in unrealized gain on real estate equity securities | - | (821) |
| Change in market value of interest rate swaps | 1,028 | (1,689) |
| | <u>\$ 25,330</u> | <u>\$ 18,565</u> |
| Comprehensive income | | |
| Net income available to common stockholders: | | |
| Net income | \$ 24,302 | \$ 21,075 |
| Dividends on preferred stock | (4,348) | (4,348) |
| Dividends on convertible preferred stock | (4,693) | (1,684) |
| Net income available to common stockholders | <u>\$ 15,261</u> | <u>\$ 15,043</u> |
| Net income per common share: | | |
| Basic: | | |
| Income excluding discontinued operations and extraordinary item | \$ 1.55 | \$ 1.61 |
| Discontinued operations | .09 | - |
| Extraordinary item | - | - |
| Net income | <u>\$ 1.64</u> | <u>\$ 1.61</u> |
| Diluted: | | |
| Income excluding discontinued operations and extraordinary item | \$ 1.52 | \$ 1.59 |
| Discontinued operations | .09 | - |
| Extraordinary item | - | - |
| Net income | <u>\$ 1.61</u> | <u>\$ 1.59</u> |
| Dividends per common share | <u>\$ 1.91</u> | <u>\$ 1.82</u> |
| Weighted average shares outstanding: | | |
| Basic | 9,290 | 9,369 |
| Diluted | <u>9,467</u> | <u>9,472</u> |

See notes to consolidated financial statements.

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

| | Nine Months Ended September 30 | |
|--|---|------------------|
| | 2002 | 2001 |
| | (Unaudited) | |
| 8.75% Series A Preferred stock, \$.001 par value | | |
| Balance at beginning of period | \$ 66,250 | \$ 66,250 |
| Balance at end of period | 66,250 | 66,250 |
| 8.34% Series B Cumulative Convertible Preferred Stock, \$.001 par value | | |
| Balance at beginning of period | 75,000 | - |
| Shares issued - stock offerings | - | 75,000 |
| Balance at end of period | 75,000 | 75,000 |
| Common stock, \$.001 par value | | |
| Balance at beginning of period | 9 | 10 |
| Purchase of Company stock | - | (1) |
| Balance at end of period | 9 | 9 |
| Additional paid-in capital | | |
| Balance at beginning of period | 196,032 | 214,568 |
| Stock options exercised | 2,602 | 1,333 |
| Shares issued in lieu of Directors' fees | 54 | 55 |
| Restricted shares issued | - | 60 |
| Shares issued - employee excellence recognition program | 1 | 1 |
| Shares issued - DRIP plan | 1,310 | - |
| Shares issued - stock offerings | - | (1,998) |
| Purchase of Company stock | (424) | (17,276) |
| Balance at end of period | 199,575 | 196,743 |
| Unearned compensation | | |
| Balance at beginning of period | (2,190) | (3,402) |
| Restricted shares issued | - | (60) |
| Amortization of unearned compensation | 1,642 | 725 |
| Balance at end of period | (548) | (2,737) |
| Accumulated other comprehensive income (loss) | | |
| Balance at beginning of period | (1,694) | 821 |
| Change in net unrealized gain on real estate equity securities | - | (821) |
| Change in market value of interest rate swaps | 1,028 | (1,689) |
| Balance at end of period | (666) | (1,689) |
| Retained earnings | | |
| Balance at beginning of period | 42,174 | 47,501 |
| Net income | 24,302 | 21,075 |
| Preferred stock dividends declared | (4,348) | (4,348) |
| Convertible preferred stock dividends declared | (4,693) | (1,684) |
| Common stock dividends declared | (17,779) | (16,997) |
| Balance at end of period | 39,656 | 45,547 |
| Total stockholders' equity | \$379,276 | \$379,123 |

See notes to consolidated financial statements.

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

| | Nine Months Ended | |
|--|--------------------------|------------------|
| | September 30 | |
| | 2002 | 2001 |
| | (Unaudited) | |
| Operating activities | | |
| Net income | \$ 24,302 | \$ 21,075 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 20,697 | 16,916 |
| Depreciation and amortization - discontinued operations | 22 | - |
| Amortization of loan costs | 604 | 669 |
| Amortization of unearned compensation | 1,642 | 725 |
| Extraordinary loss on early extinguishment of debt | 18 | - |
| Net gain on real estate held for sale, office property and real estate equity securities | (770) | (1,611) |
| Loss on sale of joint venture interest | 269 | - |
| Equity in earnings of unconsolidated joint ventures | (471) | (45) |
| Other | (7) | (6) |
| Changes in operating assets and liabilities: | | |
| Increase in receivables and other assets | (2,351) | (8,767) |
| Increase in accounts payable and accrued expenses | 6,035 | 7,535 |
| Cash provided by operating activities | 49,990 | 36,491 |
| Investing activities | | |
| Payments received on mortgage loans | 6 | 6 |
| Net decrease in note receivable from Moore Building Associates LP | 946 | 3,356 |
| Distribution from unconsolidated joint venture | 892 | 34 |
| Investment in unconsolidated joint venture | (1,663) | - |
| Purchases of real estate related investments | (97,812) | (174,672) |
| Proceeds from sales of joint venture interest, real estate and real estate equity securities | 58,602 | 29,503 |
| Real estate development | (230) | (68) |
| Improvements to real estate related investments | (15,054) | (11,026) |
| Cash used in investing activities | (54,313) | (152,867) |
| Financing activities | | |
| Principal payments on mortgage notes payable | (10,000) | (8,601) |
| Net proceeds from (payments on) bank borrowings | 8,426 | (16,144) |
| Proceeds from long-term financing | 29,975 | 106,000 |
| Prepayment premium on early extinguishment of debt | (18) | - |
| Stock options exercised | 2,602 | 1,333 |
| Dividends paid on common stock | (17,456) | (16,690) |
| Dividends paid on preferred stock | (9,041) | (4,477) |
| Purchase of Company stock | (424) | (17,277) |
| Proceeds from DRIP Plan | 1,310 | - |
| Proceeds from stock offerings | - | 73,002 |
| Cash provided by financing activities | 5,374 | 117,146 |
| Increase in cash and cash equivalents | 1,051 | 770 |
| Cash and cash equivalents at beginning of period | 2,458 | 765 |
| Cash and cash equivalents at end of period | \$ 3,509 | \$ 1,535 |

See notes to consolidated financial statements.

Parkway Properties, Inc.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2002

(1) Basis of Presentation

The consolidated financial statements include the accounts of Parkway Properties, Inc. ("Parkway" or "the Company") and its 100% owned subsidiaries. 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 unaudited condensed consolidated 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, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. The unaudited condensed consolidated financial statements should be read in conjunction with the annual report and the notes thereto.

The consolidated balance sheet at December 31, 2001 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 2001 consolidated financial statements to conform to the 2002 classifications.

(3) Supplemental Cash Flow Information

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 | |
| | 2002 | 2001 |
| Cash paid for interest | \$19,246,000 | \$17,564,000 |
| Income taxes paid | 48,000 | 121,000 |
| Restricted shares issued | - | 60,000 |
| Shares issued in lieu of Directors' fees | 54,000 | 55,000 |
| Mortgage transferred in sale of 70% interest in Parkway 233 North Michigan LLC | 73,289,000 | - |
| Note receivable from the sale of 70% interest in Parkway 233 North Michigan LLC | 747,000 | - |

(4) Acquisitions and Dispositions

On May 30, 2002, Parkway sold a 70% interest in its investment in Parkway 233 North Michigan LLC (the "Joint Venture"), a subsidiary limited liability company that owns the 233 North Michigan Avenue building in Chicago, to an affiliate of Investcorp International, Inc. ("Investcorp") for a price equal to approximately 70% of the Company's original purchase price of the property plus all capital costs since it acquired the property in June 2001. Parkway continues to provide management and leasing for the building on a day-to-day basis. In connection with the sale, Parkway recognized a \$250,000 acquisition fee in accordance with the terms of the joint venture agreement signed in October 2000 with Investcorp. The Company recorded a loss on the sale of the 70% interest in the Joint Venture of \$269,000.

Prior to the Joint Venture, the subsidiary that owned 233 North Michigan Avenue was capitalized with equity of approximately \$72 million and a 10-year first mortgage with a balance of approximately \$105 million as of May 30, 2002. The first mortgage remained in place as an obligation of the Joint Venture. Parkway received net cash proceeds of approximately \$55 million from the sale and used the proceeds to purchase new properties and to reduce short-term borrowings under the Company's line of credit. The Joint Venture is accounted for using the equity method of accounting.

On May 22, 2002, Parkway purchased the Park on Camelback (the "Park"), a 103,000 square foot office project in Phoenix, Arizona. Parkway acquired the Park at a purchase price of \$12.4 million plus \$318,000 for closing costs and estimated capital items in year one, for a total acquisition price of \$12.7 million. The purchase was funded using proceeds from bank borrowings on a line of credit with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points. The Park, a five-building two-story office project located in the Camelback Corridor sub-market, was constructed in 1981.

On May 31, 2002, Parkway purchased the Viad Corporate Center (the "Viad Purchase"), a 484,000 square foot office building in Phoenix, Arizona. Parkway acquired the Viad Purchase for \$58 million. The purchase was funded using a combination of proceeds from the Joint Venture and bank borrowings on a line of credit with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points. The Viad Purchase is a 24-story class A office tower located in the Downtown North sub-market.

On June 5, 2002, Parkway purchased a three-building suburban office portfolio consisting of 412,000 square feet in Houston, Texas (the "Houston Purchase"). The properties were acquired for a purchase price of \$27.2 million plus an additional \$941,000 in estimated first year improvements raising the total acquisition price to \$28.1 million. The purchase was funded using proceeds from a new term loan with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points.

The Houston Purchase portfolio consists of 1717 St. James Place, 5300 Memorial and Town & Country Central One. The 1717 St. James property is located in the Tanglewood sub-market, 5300 Memorial property is located in the Midtown sub-market and Town & Country Central One is located in the Katy Freeway/Energy Corridor sub-market.

On May 31, 2002, the Company closed on the cash sale of its 96,000 square foot office property in Indianapolis, Indiana for net proceeds of \$3,192,000. The Company recorded a gain for financial reporting purposes of \$770,000 on the sale in the second quarter. The net proceeds from the sale were used to reduce amounts outstanding on the Company's lines of credit.

(5) Investment in Unconsolidated Joint Ventures

As of September 30, 2002, the Company is invested in two joint ventures with unrelated investors. Parkway retained a minority interest of 30% in one joint venture and 50% in the other. As required by generally accepted accounting principles, the joint venture activity is accounted for using the equity method of accounting, as Parkway does not control either of these joint ventures. As a result, the assets and liabilities of the joint ventures are not included on Parkway's consolidated balance sheet as of September 30, 2002. Information relating to these consolidated joint ventures is detailed below.

On May 30, 2002, Parkway sold a 70% interest in its investment in Parkway 233 North Michigan LLC (the "Joint Venture"), a limited liability company that owns the 233 North Michigan Avenue building in Chicago, to an affiliate of Investcorp International, Inc. ("Investcorp") for a price equal to approximately 70% of the Company's original purchase price of the property plus all capital costs since it acquired the property in June 2001. Parkway continues to provide management and leasing for the building on a day-to-day basis. In connection with the sale, Parkway recognized a \$250,000 acquisition fee in accordance with the terms of the joint venture agreement signed in October 2000 with Investcorp. The Company recorded a loss on the sale of the 70% interest in the Joint Venture of \$269,000. The carrying amount of the joint venture interest at September 30, 2002 is \$15,623,000.

In addition, the Company owns a 50% interest in an office property in New Orleans, Louisiana known as the Wink Building. The building is 100% leased and occupied by the other 50% partner. The carrying amount of the joint venture interest at September 30, 2002 is \$414,000.

Balance sheet information for the unconsolidated joint ventures is summarized below as of September 30, 2002 and December 31, 2001 (in thousands):

Balance Sheet Information

| | September 30, 2002 | | | December 31, 2001 | | |
|--|-----------------------|------------------|------------------|-----------------------|------------------|----------------|
| | 233 North Michigan | Wink Building | Total | 233 North Michigan | Wink Building | Total |
| Unconsolidated Joint Ventures (at 100%): | | | | | | |
| Real estate, net | \$172,220 | \$1,311 | \$173,531 | \$ - | \$1,328 | \$1,328 |
| Other assets | 19,026 | 134 | 19,160 | - | 177 | 177 |
| Total assets | <u>\$191,246</u> | <u>\$1,445</u> | <u>\$192,691</u> | <u>\$ -</u> | <u>\$1,505</u> | <u>\$1,505</u> |
| Mortgage debt | \$104,156 | \$ 613 | \$104,769 | \$ - | \$ 661 | \$ 661 |
| Other liabilities | 12,876 | 4 | 12,880 | - | 15 | 15 |
| Partners' and Shareholders' equity | 74,214 | 828 | 75,042 | - | 829 | 829 |
| Total liabilities and Partners'/Shareholders' equity | <u>\$191,246</u> | <u>\$1,445</u> | <u>\$192,691</u> | <u>\$ -</u> | <u>\$1,505</u> | <u>\$1,505</u> |
| Parkway's Share of Unconsolidated Joint Ventures: | | | | | | |
| Real estate, net | \$ 51,666 | \$ 656 | \$ 52,322 | \$ - | \$ 664 | \$ 664 |
| Mortgage debt | <u>\$ 31,247</u> | <u>\$ 307</u> | <u>\$ 31,554</u> | <u>\$ -</u> | <u>\$ 331</u> | <u>\$ 331</u> |
| Net investment in joint ventures | <u>\$ 15,623</u> | <u>\$ 414</u> | <u>\$ 16,037</u> | <u>\$ -</u> | <u>\$ 416</u> | <u>\$ 416</u> |

Income statement information for the unconsolidated joint ventures is summarized below for the three months and nine months ended September 30, 2002 (in thousands):

Results of Operations

| | Three Months Ended | | | Nine Months Ended | | |
|--|-----------------------|------------------|----------|-----------------------|------------------|-----------|
| | September 30, 2002 | | | September 30, 2002 | | |
| | 233 North Michigan | Wink Building | Total | 233 North Michigan | Wink Building | Total |
| Unconsolidated Joint Ventures (at 100%): | | | | | | |
| Revenues | \$ 8,242 | \$ 76 | \$ 8,318 | \$ 11,085 | \$ 228 | \$ 11,313 |
| Operating expenses | (3,668) | (21) | (3,690) | (4,870) | (68) | (4,938) |
| Net operating income | 4,574 | 55 | 4,628 | 6,215 | 160 | 6,375 |
| Interest expense | (2,335) | (14) | (2,348) | (3,145) | (41) | (3,186) |
| Loan cost amortization | (29) | (1) | (30) | (40) | (2) | (42) |
| Depreciation and amortization | (1,189) | (6) | (1,195) | (1,622) | (17) | (1,639) |
| Net income | \$ 1,021 | \$ 34 | \$ 1,055 | \$ 1,408 | \$ 100 | \$ 1,508 |
| Parkway's Share of Unconsolidated Joint Ventures: | | | | | | |
| Net income | \$ 305 | \$ 17 | \$ 322 | \$ 421 | \$ 50 | \$ 471 |
| Interest expense | \$ 701 | \$ 7 | \$ 708 | \$ 944 | \$ 21 | \$ 965 |
| Loan cost amortization | \$ 9 | \$ - | \$ 9 | \$ 12 | \$ 1 | \$ 13 |
| Depreciation and amortization | \$ 356 | \$ 4 | \$ 360 | \$ 486 | \$ 9 | \$ 495 |

(6) Impact of Recently Issued Accounting Standards

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", however, it retains the fundamental provisions of SFAS No. 121 related to the recognition and measurement of the impairment of long-lived assets to be "held and used." In addition, SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g., abandoned) be classified as "held and used" until it is disposed of and establishes more restrictive criteria to classify an asset as "held for sale." The Company adopted SFAS No. 144 in the first quarter of 2002. Management does not anticipate that the adoption of SFAS No. 144 will have a significant effect on the Company's consolidated results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4 unless the extinguishment qualifies as an extraordinary item under the provisions of APB Opinion No. 30. SFAS No. 145 also amends SFAS No. 13 to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). In addition, the FASB rescinded SFAS No. 44 which addressed the accounting for intangible assets of motor carriers and made numerous technical corrections. The Company is required to adopt SFAS No. 145 in the first quarter of 2003. Management does not anticipate that the adoption of SFAS No. 145 will have a significant effect on the Company's consolidated results of operations or financial position.

(7) Capital Transactions

On July 24, 2002, the Company purchased 14,100 shares of its common stock at an average price of \$30.08. Since June 1998, the Company has purchased a total of 2,141,593 shares of its common stock, which represents approximately 19% of the common stock outstanding when the buyback program was initiated on

June 30, 1998. The Company has the authority to purchase an additional 485,900 shares under its existing authorization from its Board of Directors.

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

Financial Condition

Comments are for the balance sheet dated September 30, 2002 compared to the balance sheet dated December 31, 2001.

During the nine months ending September 30, 2002, total assets decreased \$73,407,000 and office properties (before depreciation) decreased \$72,033,000 or 8.2%. Parkway's direct investment in office and parking properties decreased \$85,916,000 net of depreciation to a carrying amount of \$709,944,000 at September 30, 2002, and consisted of 54 operating properties. During the nine months ending September 30, 2002, the Company also capitalized building improvements and additional purchase expenses of \$11,424,000 and recorded depreciation expense of \$19,148,000 related to its operating property portfolio. The primary reason for the decrease in total assets and investment in office and parking properties is the May 30, 2002, sale of a 70% interest in our investment in Parkway 233 North Michigan LLC (the "Joint Venture"), a subsidiary limited liability company that owns the 233 North Michigan Avenue building in Chicago, to an affiliate of Investcorp International, Inc. ("Investcorp") for a price equal to approximately 70% of the Company's original purchase price of the property plus all capital costs since it acquired the property in June 2001. Parkway continues to provide management and leasing for the building on a day-to-day basis. In connection with the sale, Parkway recognized a \$250,000 acquisition fee in accordance with the terms of the joint venture agreement signed in October 2000 with Investcorp. The Company recorded a loss of \$269,000 on the sale of the 70% interest in the Joint Venture.

Prior to the Joint Venture, the subsidiary that owned 233 North Michigan Avenue was capitalized with equity of approximately \$72 million and a 10-year first mortgage with a current balance of approximately \$105 million as of May 30, 2002. The first mortgage remained in place as an obligation of the Joint Venture. Parkway received net cash proceeds of approximately \$55 million from the sale and used the proceeds to purchase new properties and to reduce short-term borrowings under the Company's line of credit. The Joint Venture is accounted for using the equity method of accounting.

On May 22, 2002, Parkway purchased the Park on Camelback (the "Park"), a 103,000 square foot office project in Phoenix, Arizona. Parkway acquired the Park at a purchase price of \$12.4 million plus \$318,000 for closing costs and estimated capital items in year one, for a total acquisition price of \$12.7 million. The purchase was funded using proceeds from bank borrowings on a line of credit with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points. The Park, a five-building two-story office project located in the Camelback Corridor sub-market, was constructed in 1981.

On May 31, 2002, Parkway purchased the Viad Corporate Center (the "Viad Purchase"), a 484,000 square foot office building in Phoenix, Arizona. Parkway acquired the Viad Purchase for \$58 million. The purchase was funded using a combination of proceeds from the Joint Venture and bank borrowings on a line of credit with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points. The Viad Purchase is a 24-story class A office tower located in the Downtown North sub-market.

On June 5, 2002, Parkway purchased a three building suburban office portfolio consisting of 412,000 square feet in Houston, Texas (the "Houston Purchase"). The properties were acquired for a purchase price of \$27.2 million plus an additional \$941,000 in estimated first year improvements raising the total acquisition price to \$28.1 million. The purchase was funded using proceeds from a new term loan with JPMorgan Chase Bank at a rate equal to the 30-day Libor rate plus 137.5 basis points.

The Houston Purchase portfolio consists of 1717 St. James Place, 5300 Memorial and Town & Country Central One. The 1717 St. James property is located in the Tanglewood sub-market, 5300 Memorial property is located in the Midtown sub-market and Town & Country Central One is located in the Katy Freeway/Energy Corridor sub-market.

On May 31, 2002, the Company closed on the cash sale of its 96,000 square foot office property in Indianapolis, Indiana for net proceeds of \$3,192,000. The Company recorded a gain for financial reporting purposes of \$770,000 on the sale in the second quarter. The net proceeds from the sale were used to reduce amounts outstanding on the Company's lines of credit.

Notes payable to banks totaled \$133,442,000 at September 30, 2002, and resulted from advances under bank lines of credit to purchase additional office properties, make improvements to office properties and fund redevelopment costs.

Mortgage notes payable without recourse decreased \$84,411,000 during the nine months ended September 30, 2002, as a result of the following (in thousands):

| | Increase (Decrease) |
|---|--------------------------------|
| Placement of mortgage debt | \$ 29,975 |
| Scheduled principal payments | (8,219) |
| Principal paid on early extinguishment of debt | (1,781) |
| Mortgage on 233 North Michigan (now responsibility of Joint Venture) | (104,699) |
| Market value adjustment on reverse swap interest rate contract | 313 |
| | <u>\$ (84,411)</u> |

On April 11, 2002, the Company closed a \$20,450,000 non-recourse first mortgage on the Bank of America Plaza building in Nashville, Tennessee. The loan was funded by New York Life Insurance Company at a fixed rate of 7.10% and matures May 10, 2012. On May 30, 2002, the Company closed a \$9,525,000 non-recourse first mortgage on the One Park Ten building in Houston, Texas. The loan was funded by Wachovia Securities at a fixed rate of 7.10% and matures June 1, 2012.

During the nine months ended September 30, 2002, the Company recognized an extraordinary loss on the early extinguishment of a mortgage note payable in the amount of \$18,000. The extraordinary loss represents the prepayment penalty paid on the loan.

The Company expects to continue seeking fixed rate, non-recourse mortgage financing at terms ranging from ten to thirty years on select office building investments as additional capital is needed. The Company plans to maintain a ratio of debt to total market capitalization from 25% to 50% although such ratio may from time to time temporarily exceed 50%, especially when the Company has incurred significant amounts of short-term debt in connection with acquisitions. In addition, volatility in the price of the Company's common stock may result in a debt to total market capitalization ratio exceeding 50% from time to time. In addition to this debt ratio, the Company also 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, 2002 and 2001 was 3.34 and 3.10 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, 2002 and 2001 was 1.79 and 1.71 times, respectively.

Stockholders' equity increased \$3,695,000 during the nine months ended September 30, 2002, as a result of the following (in thousands):

| | Increase (Decrease) |
|---|--------------------------------|
| Net income | \$24,302 |
| Change in market value of interest rate swaps | 1,028 |
| Comprehensive income | <u>25,330</u> |
| Common stock dividends declared | (17,779) |
| Preferred stock dividends declared | (4,348) |
| Convertible preferred stock dividends declared | (4,693) |
| Exercise of stock options | 2,602 |
| Amortization of unearned compensation | 1,642 |
| Shares issued in lieu of directors' fees | 54 |
| Shares issued through DRIP Plan | 1,310 |
| Shares issued - employee excellence recognition program | 1 |
| Purchase of Company stock | <u>(424)</u> |
| | <u><u>\$3,695</u></u> |

On July 24, 2002, the Company purchased 14,100 shares of its common stock at an average price of \$30.08. Since June 1998, the Company has purchased a total of 2,141,593 shares of its common stock, which represents approximately 19% of the common stock outstanding when the buyback program was initiated on June 30, 1998. The Company has the authority to purchase an additional 485,900 shares under its existing authorization from its Board of Directors.

RESULTS OF OPERATIONS

Comments are for the three months and nine months ended September 30, 2002 compared to the three months and nine months ended September 30, 2001.

Net income available to common stockholders for the three months ended September 30, 2002, was \$4,555,000 (\$.49 per basic common share) as compared to \$3,830,000 (\$.41 per basic common share) for the three months ended September 30, 2001. Net income available to common stockholders for the nine months ended September 30, 2002 was \$15,261,000 (\$1.64 per basic common share) as compared to \$15,043,000 (\$1.61 per basic common share) for the nine months ended September 30, 2001. Net income included a net gain from the sale of a joint venture interest and real estate from discontinued operations in the amount of \$501,000 for the nine months ended September 30, 2002. Net income included a net gain from the sale of land, an office property and real estate equity securities in the amount of \$1,611,000 for the nine months ended September 30, 2001.

The primary reason for the change in the Company's net income from office and parking properties for 2002 as compared to 2001 is the net effect of the operations of the following properties purchased, properties sold or joint venture interest sold:

Properties Purchased:

| <u>Office Properties</u> | <u>Purchase Date</u> | <u>Square Feet</u> |
|----------------------------|----------------------|--------------------|
| 233 North Michigan | 06/22/01 | 1,068,000 |
| 550 Greens Parkway | 10/01/01 | 72,000 |
| Bank of America Plaza | 12/20/01 | 418,000 |
| The Park on Camelback | 05/22/02 | 103,000 |
| Viad Corporate Center | 05/31/02 | 484,000 |
| 5300 Memorial | 06/05/02 | 154,000 |
| Town & Country Central One | 06/05/02 | 148,000 |
| 1717 St. James Place | 06/05/02 | 110,000 |

Properties Sold:

| <u>Office Property</u> | <u>Date Sold</u> | <u>Square Feet</u> |
|------------------------|------------------|--------------------|
| Vestavia | 03/30/01 | 75,000 |
| Corporate Square West | 05/31/02 | 96,000 |

Joint Venture Interest Sold:

| <u>Office Property/Interest Sold</u> | <u>Date Sold</u> | <u>Square Feet</u> |
|--------------------------------------|------------------|--------------------|
| 233 North Michigan/70% | 05/30/02 | 1,068,000 |

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>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Income | \$ 36,747 | \$ 36,967 | \$115,758 | \$ 97,674 |
| Operating expense | (16,512) | (15,691) | (49,974) | (40,998) |
| | 20,235 | 21,276 | 65,784 | 56,676 |
| Interest expense | (4,106) | (6,045) | (14,963) | (14,670) |
| Depreciation and amortization | (6,644) | (6,441) | (20,697) | (16,916) |
| Net income | <u>\$ 9,485</u> | <u>\$ 8,790</u> | <u>\$ 30,124</u> | <u>\$ 25,090</u> |

Dividend income decreased \$495,000 for the nine months ending September 30, 2002, compared to the nine months ending September 30, 2001. The decrease is due to the Company's sale of all the equity securities of real estate investment trusts held by the Company in 2001 through the Company's RSVP Program.

The \$884,000 increase in interest expense on bank notes for the nine months ending September 30, 2002, compared to the nine months ending September 30, 2001, is primarily due to the increase in the average balance of borrowings outstanding under bank lines of credit from \$68,981,000 during 2001 to \$125,494,000 during 2002. In addition, weighted average interest rates on bank lines of credit decreased from 6.74% during 2001 to 4.72% during 2002.

LIQUIDITY AND CAPITAL RESOURCES

Statement of Cash Flows

Cash and cash equivalents were \$3,509,000 and \$2,458,000 at September 30, 2002 and December 31, 2001, respectively. The Company generated \$49,990,000 in cash flows from operating activities during the nine months ending September 30, 2002 compared to \$36,491,000 for the same period of 2001. The Company used \$54,313,000 in investing activities during the nine months ending September 30, 2002. Proceeds from the sales of a joint venture interest and real estate from discontinued operations were \$58,602,000 for the nine months ending September 30, 2002. In implementing its investment strategy, the Company used \$97,812,000 to purchase operating properties. The Company also spent \$15,054,000 to make capital improvements at its office properties and \$230,000 toward the Toyota Center Garage real estate development project. Cash dividends of \$26,497,000 (\$1.91 per common share, \$1.64 per Series A preferred share and \$2.19 per Series B preferred share) were paid to stockholders. Proceeds from long-term financing were \$29,975,000, scheduled principal payments were \$8,219,000 and principal payments on the early extinguishment of debt were \$1,781,000 on mortgage notes payable during the nine months ending September 30, 2002. During the nine months ended September 30, 2002, the Company recognized an extraordinary loss on the early extinguishment of debt in the amount of \$18,000.

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, 2002, the Company had \$133,442,000 outstanding under two bank lines of credit and a Term Loan.

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 has a three-year \$135 million unsecured revolving credit facility with a consortium of 13 banks with J.P. Morgan Chase & Co. serving as the lead agent (the "\$135 million line") and a one-year \$15 million unsecured line of credit with PNC Bank (the "\$15 million line"). The interest rates on the lines of credit are equal to the 30 day LIBOR rate plus 112.5 to 137.5 basis points, depending upon overall Company leverage. The weighted average interest rate on the \$15 million line, the \$135 million line and the Term Loan was 3.11%, 5.10% and 3.24% at September 30, 2002, respectively.

On June 4, 2002, Parkway entered into a Credit Agreement (the "Credit Agreement") with JP Morgan Chase Bank, as Administrative Agent, Wachovia Bank, National Association, as Syndication Agent, and other banks as participants. The Credit Agreement, among other things, provides for a new \$35 million one-year term loan facility (the "Term Loan") of which \$35 million was drawn upon and paid to Parkway as of June 4, 2002. Excluding bank fees and closing costs, the Term Loan bears interest at a rate equal to LIBOR plus an applicable margin ranging from 1.125% to 1.375% depending on Parkway's leverage. Accrued and unpaid interest under the Term Loan is payable monthly with the final interest payment as well as the entire principal amount outstanding thereunder due and payable on June 4, 2003.

The Company entered into the following interest rate hedge contracts during 2001 and 2002, which are summarized as follows:

| <u>Type of Hedge</u> | <u>Notional Amount</u> | <u>Maturity Date</u> | <u>Reference Rate</u> | <u>Fixed Rate</u> | <u>Fair Market Value 09/30/02</u> |
|----------------------|------------------------|----------------------|------------------------|-------------------|-----------------------------------|
| Swap | \$51,000,000 | 01/15/03 | 1-Month LIBOR | 5.44% | \$(633,000) |
| Swap | \$65,000,000 | 12/23/02 | 1-Month LIBOR | 1.99% | (33,000) |
| Reverse Swap | \$ 5,390,000 | 07/15/06 | 1-Month LIBOR + 3.455% | 8.08% | 313,000 |
| | | | | | <u>\$ (353,000)</u> |

On June 21, 2002, the Company entered into a \$65 million interest rate swap agreement with JPMorgan Chase Bank effectively locking the interest rate on this portion of outstanding unsecured, floating rate bank debt at 1.99% through December 23, 2002. The interest rate swap reduces the company's interest rate risk while it pursues placement of non-recourse, long-term secured mortgages on certain of its recent acquisitions.

The Company designated the swaps as a hedge of the variable interest rates on \$81 million of the Company's borrowings under the \$135 million line and the \$35 million the Company borrowed under the Term Loan. 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 nine months ended September 30, 2002, the Company entered into a reverse swap interest rate contract. The effect of the reverse swap is to convert a fixed rate mortgage note payable to a variable rate. The Company does not hold or issue these types of derivative contracts for trading or speculative purposes.

The \$15 million line is unsecured and is expected to fund the daily cash requirements of the Company's treasury management system. This line of credit matures August 3, 2003 and has an interest rate equal to the 30-day LIBOR rate plus 112.5 to 137.5 basis points, depending upon overall Company leverage, with the current rate set at LIBOR plus 130 basis points. 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.

The \$135 million line is also unsecured and is expected to fund acquisitions of additional investments. This line of credit matures June 28, 2004 and has an interest rate equal to the LIBOR rate plus 112.5 to 137.5 basis points, depending upon overall Company leverage, with the current rate set at LIBOR plus 125 basis points. The Company paid a facility fee of \$225,000 (16.67 basis points) and origination fees of \$565,000 (41.85 basis points) upon closing of the loan agreement and pays an annual administration fee of \$37,500. The Company also pays fees on the unused portion of the line based upon overall Company leverage, with the current rate set at 25 basis points.

The Term Loan is unsecured and is expected to fund acquisitions of additional investments. The Term Loan matures June 4, 2003 and has an interest rate equal to the LIBOR rate plus 112.5 to 137.5 basis points, depending upon overall Company leverage, with the current rate set at LIBOR plus 125 basis points. The Company paid facility and origination fees of \$170,000 (48.57 basis points) upon closing of the loan agreement. The Company does not pay annual administration fees or fees on the unused portion of the Term Loan.

At September 30, 2002, the Company had \$220,574,000 of non-recourse fixed rate mortgage notes payable with an average interest rate of 7.4% secured by office properties and \$133,442,000 drawn under bank lines of credit and the Term Loan. Based on the Company's total market capitalization of approximately \$843,999,000 at September 30, 2002 (using the September 30, 2002 closing price of \$33.84 per common share), the Company's debt represented approximately 45.7% of its total market capitalization. The Company plans to maintain a ratio of debt to total market capitalization from 25% to 50% although such ratio may from time to time temporarily exceed 50%, especially when the Company has incurred significant amounts of short-term debt in connection with acquisitions. In addition, volatility in the price of the Company's common stock may result in a debt to market capitalization exceeding 50% from time to time. In addition to this debt ratio, the Company also 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, 2002 and 2001 was 3.34 and 3.10 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, 2002 and 2001 was 1.79 and 1.71 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> |
|------------------------|----------------------------------|---|
| 2002* | 7.39% | \$ 3,132 |
| 2003 | 7.39% | 11,734 |
| 2004 | 7.39% | 12,627 |
| 2005 | 7.39% | 13,593 |
| 2006 | 7.38% | 18,199 |
| 2007 | 7.38% | 15,221 |
| Thereafter | 7.55% | 146,068 |
| Total | | <u>\$220,574</u> |
| Fair value at 09/30/02 | | <u>\$234,054</u> |

*Remaining three months

The Company presently has plans to make additional capital improvements at its office properties in 2002 of approximately \$4,503,000. These expenses include tenant improvements, capitalized acquisition costs and capitalized building improvements. Approximately \$719,000 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 held for sale, 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 and the Term Loan) 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.

Funds From Operations

Management believes that funds from operations ("FFO") is an appropriate measure of performance for equity REITs. Funds from operations is defined by the National Association of Real Estate Investment Trusts (NAREIT) as net income (computed in accordance with generally accepted accounting principles), 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. In 2002, NAREIT clarified that FFO related to assets held for sale, sold or otherwise transferred and included in results of discontinued operations should continue to be included in consolidated FFO. This clarification is effective January 1, 2002, and calculation of FFO based on this clarification should be shown for all periods presented in financial statements or tables. 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 the Company's FFO for the three months and nine months ended September 30, 2002 and 2001 (in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--|-----------------|---|-----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Income before extraordinary item | \$ 7,569 | \$ 6,835 | \$24,320 | \$21,075 |
| Adjustments to derive funds from operations: | | | | |
| Preferred dividends | (1,450) | (1,450) | (4,348) | (4,348) |
| Convertible preferred dividends | (1,564) | (1,555) | (4,693) | (1,684) |
| Depreciation and amortization | 6,644 | 6,441 | 20,697 | 16,916 |
| Depreciated and amortization-discontinued operations | - | - | 22 | - |
| Adjustments for unconsolidated joint ventures | 360 | 3 | 495 | 7 |
| Amortization of discounts, deferred gains and other | (2) | (2) | (7) | (6) |
| Minority interest - unit holders | - | - | 1 | 2 |
| Loss on sale of joint venture interest | - | - | 269 | 35 |
| Gain on sale of depreciable real estate | - | - | (770) | - |
| Funds from operations | <u>\$11,557</u> | <u>\$10,272</u> | <u>\$35,986</u> | <u>\$31,997</u> |

NAREIT has recommended supplemental disclosure concerning capital expenditures, leasing costs and straight-line rents which are given below (in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--|-------------|---|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| Straight-line rents | \$ 501 | \$ 629 | \$1,686 | \$1,269 |
| Amortization of restricted stock | 547 | 243 | 1,642 | 725 |
| Building improvements | 688 | 961 | 2,037 | 2,007 |
| Tenant improvements: | | | | |
| New leases | 1,680 | 1,140 | 4,736 | 2,062 |
| Lease renewals | 1,167 | 1,420 | 2,546 | 4,195 |
| Leasing commissions: | | | | |
| New leases | 459 | 816 | 2,860 | 1,171 |
| Lease renewals | 624 | 27 | 1,271 | 956 |
| Leasing commissions amortized | 502 | 402 | 1,437 | 1,128 |
| Upgrades on recent acquisitions | 819 | 38 | 1,604 | 635 |
| Net gain on sale of real estate securities and land held for sale | - | - | - | 1,646 |

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 five-year terms, which may enable the Company to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the then-existing market 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

Within the 90 days prior to the date of this report, 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-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that 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.

In addition, the Company reviewed its internal controls, and there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

PARKWAY PROPERTIES, INC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) (99)(a) Agreement and Second Amendment to Working Capital Line of Credit Agreement between Parkway Properties LP and PNC Bank, National Association. Parkway agrees to furnish supplementally to the Securities and Exchange Commission on request a copy of any omitted schedule or exhibit to this agreement.

(b) Reports on Form 8-K

(1) 8-K Filed – August 13, 2002

Regulation FD Disclosure. Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to accompany the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 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 8, 2002

PARKWAY PROPERTIES, INC.

BY: /s/ Regina P. Shows
Regina P. Shows, CPA
Senior Vice President and
Chief Accounting Officer

/s/ Mandy M. Pope
Mandy M. Pope, CPA
Vice President and Controller

CERTIFICATIONS

I, Steven G. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parkway Properties, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ Steven G. Rogers
Steven G. Rogers
Chief Executive Officer

I, Marshall A. Loeb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parkway Properties, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ Marshall A. Loeb
Marshall A. Loeb
Chief Financial Officer