Section 1: 8-K/A (FORM 8-K AMENDMENT NO 1)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 6, 2016

PARKWAY, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland	**001-37819**	**61-1796261**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

San Felipe Plaza **5847 San Felipe Street, Suite 2200,** **Houston, Texas**	**77057**
(Address of Principal Executive Offices)	(Zip code)

(346) 200-3100
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

This Current Report on Form 8-K/A (this "Amendment") is being filed by Parkway, Inc. (the "Company") to amend its Current Report on Form 8-K filed with the Securities and Exchange Commission (the "Commission") on October 12, 2016, in connection with the consummation of the merger of Parkway Properties, Inc. ("Legacy Parkway") with and into a subsidiary of Cousins Properties Incorporated ("Cousins") on October 6, 2016, the subsequent separation of a portion of Cousins' combined businesses relating to the ownership of real properties in Houston, Texas, as well as Legacy Parkway's fee-based real estate services, from the remainder of the combined businesses, the reorganization of the Company and the spin-off of the Company on October 7, 2016, following which the Company became an independent, publicly traded real estate investment trust.

The Company is filing this Amendment solely to provide certain financial statements of Parkway Houston and Cousins Houston, the predecessors of the Company, and the Company as required by Item 9.01(a) of Form 8-K and certain pro forma financial information required by Item 9.01(b) of Form 8-K.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

The audited combined financial statements of Parkway Houston as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 are filed herewith as Exhibit 99.1 and are incorporated by reference herein.

The unaudited combined financial statements of Parkway Houston as of and for the three and nine months ended September 30, 2016 are filed herewith as Exhibit 99.2 and are incorporated by reference herein.

The audited combined financial statements of Cousins Houston as of December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013 are filed herewith as Exhibit 99.3 and are incorporated by reference herein.

The unaudited combined financial statements of Cousins Houston as of and for the three and nine months ended September 30, 2016 are filed herewith as Exhibit 99.4 and are incorporated by reference herein.

(b) Pro Forma Financial Information

The unaudited pro forma combined financial statements of the Company as of and for the nine months ended September 30, 2016 and for the year ended December 31, 2015 are filed herewith as Exhibit 99.5 and are incorporated by reference herein.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Deloitte & Touche LLP.
99.1	Audited combined financial statements of Parkway Houston as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013.
99.2	Unaudited combined financial statements of Parkway Houston as of and for the three and nine months ended September 30, 2016.
99.3	Audited combined financial statements of Cousins Houston as of December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013.
99.4	Unaudited combined financial statements of Cousins Houston as of and for the three and nine months ended September 30, 2016.
99.5	Unaudited pro forma combined financial statements of Parkway, Inc. as of and for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

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 hereunto duly authorized.

Date: December 21, 2016	PARKWAY, INC.
	BY: /s/ A. Noni Holmes-Kidd
	A. Noni Holmes-Kidd
	Vice President, General Counsel and Secretary

EXHIBIT INDEX

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Section 2: EX-23.1 (CONSENT)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the use of our report dated June 30, 2016, with respect to the combined financial statements of Parkway Houston as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013, and the related financial statement schedule, included in the Current Report on Form 8-K/A of Parkway, Inc. filed December 21, 2016 and the Registration Statement on Form S-8 (No. 333-214032) of Parkway, Inc.

/s/ Ernst & Young LLP

Indianapolis, Indiana
December 21, 2016

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Section 3: EX-23.2 (CONSENT)

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-214032 on Form S-8 of Parkway, Inc. of our report dated June 30, 2016, relating to the combined financial statements and financial statement schedule of Cousins Houston (which report expressed an unqualified opinion on the combined financial statements and financial statement schedule and includes an explanatory paragraph related to the allocation of certain operating expenses from Cousins Properties Incorporated) appearing in this Current Report on Form 8-K/A of Parkway, Inc. dated December 21, 2016.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

December 21, 2016

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Section 4: EX-99.1 (AUDITED COMBINED FINANCIAL STATEMENTS)

Exhibit 99.1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS
PARKWAY PROPERTIES, INC.

We have audited the accompanying combined balance sheets of Parkway Houston (the “Company”) as of December 31, 2015 and 2014, and the related combined statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the accompanying combined financial statement schedule. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Company at December 31, 2015 and 2014, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP
Indianapolis, Indiana
June 30, 2016

PARKWAY HOUSTON
COMBINED BALANCE SHEETS
(In thousands)

	December 31, 2015	December 31, 2014
Assets		
Real estate related investments:		
Office properties	$ 818,594	$ 772,957
Accumulated depreciation	(65,941)	(34,111)
Total real estate related investments, net	752,653	738,846
Condominium units	—	9,318
Cash and cash equivalents	11,961	7,992
Receivables and other assets	76,300	67,657
Intangible assets, net	24,439	41,550
Management contract intangibles, net	378	1,133
Total assets	$ 865,731	$ 866,496
Liabilities		
Mortgage notes payable, net	$ 396,901	$ 407,211
Accounts payable and other liabilities	36,299	37,270
Below market leases, net of accumulated amortization of $36,175 and $18,586, respectively	23,465	41,054
Total liabilities	456,665	485,535
Equity		
Parkway Equity	409,066	380,053
Noncontrolling interests	—	908
Total equity	409,066	380,961
Total liabilities and equity	$ 865,731	$ 866,496

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF OPERATIONS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Revenues			
Income from office properties	$108,507	$123,172	$ 20,965
Management company income	9,891	23,971	17,526
Sale of condominium units	11,063	16,554	—
Total revenues	129,461	163,697	38,491
Expenses			
Property operating expenses	45,385	54,856	9,119
Management company expenses	9,362	27,038	23,638
Cost of sales—condominium units	11,120	13,199	14
Depreciation and amortization	55,570	64,012	10,465
Impairment loss on management contracts	—	4,750	—
General and administrative	6,336	6,917	7,267
Total expenses	127,773	170,772	50,503
Operating income (loss)	1,688	(7,075)	(12,012)
Other income and expenses			
Interest and other income	246	244	1,663
Interest expense	(16,088)	(16,252)	(3,296)
Loss before income taxes	(14,154)	(23,083)	(13,645)
Income tax (expense) benefit	(1,635)	180	1,276
Net loss	(15,789)	(22,903)	(12,369)
Net (income) loss attributable to noncontrolling interests	7	(148)	—
Net loss attributable to Parkway Houston	$ (15,782)	$ (23,051)	$(12,369)

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Parkway Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	$146,987	$ —	$146,987
Net loss	(12,369)	—	(12,369)
Contributions from Parkway, net	262,367	—	262,367
Contributions from noncontrolling interest holders in properties	—	3,050	3,050
Balance at December 31, 2013	$396,985	$ 3,050	$400,035
Net income (loss)	(23,051)	148	(22,903)
Distributions to noncontrolling interest holders in properties	—	(2,290)	(2,290)
Contributions from Parkway, net	6,119	—	6,119
Balance at December 31, 2014	$380,053	$ 908	$380,961
Net loss	(15,782)	(7)	(15,789)
Distributions to noncontrolling interest holders in properties	—	(901)	(901)
Contributions from Parkway, net	44,795	—	44,795
Balance at December 31, 2015	$409,066	$ —	$409,066

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	**2014**	**2013**
Operating activities			
Net loss	$(15,789)	$(22,903)	$(12,369)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization of office properties	55,570	64,012	10,465
Amortization of management contracts, net	755	7,881	7,125
Amortization of below market leases, net	(16,937)	(16,118)	(1,826)
Amortization of financing costs	42	42	32
Amortization of debt premium, net	(3,992)	(3,940)	(93)
Deferred income tax expense (benefit)	363	(4,763)	(1,960)
Non-cash impairment loss on management contracts	—	4,750	—
Increase in deferred leasing costs	(7,735)	(14,661)	(563)
Changes in operating assets and liabilities:			
Change in condominium units	9,318	10,582	—
Change in receivables and other assets	(9,369)	(20,396)	(3,610)
Change in accounts payable and other liabilities	630	(1,294)	6,398
Cash provided by operating activities	12,856	3,192	3,599
Investing activities			
Improvements to real estate	(46,421)	(4,360)	(623)
Cash used in investing activities	(46,421)	(4,360)	(623)
Financing activities			
Principal payments on mortgage notes payable	(6,360)	(3,547)	—
Proceeds from issuance of mortgage notes payable	—	—	80,000
Debt financing costs	—	—	(422)
Change in Parkway investment, net	44,795	4,573	(74,785)
Distributions to noncontrolling interest holders in properties	(901)	(2,290)	—
Cash provided by (used in) financing activities	37,534	(1,264)	4,793
Change in cash and cash equivalents	3,969	(2,432)	7,769
Cash and cash equivalents at beginning of year	7,992	10,424	2,655
Cash and cash equivalents at end of year	$ 11,961	$ 7,992	$ 10,424

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF CASH FLOWS (continued)
(In thousands)

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

	Year Ended December 31,		
	2015	2014	2013
Supplemental cash flow information:			
Cash paid for interest	$20,064	$20,313	$ 19,775
Cash paid for income taxes	1,783	4,383	100
Supplemental schedule of non-cash investing and financing activity:			
Real estate assets acquired in TPGI Merger	—	—	645,284
Intangible assets acquired in TPGI Merger	—	—	61,562
Condominium units acquired in TPGI Merger	—	—	19,900
Other assets acquired in TPGI Merger	—	—	19,294
Management contract intangibles acquired in TPGI Merger	—	—	1,889
Mortgage notes payable assumed in TPGI Merger	—	—	335,038
Below market leases assumed in TPGI Merger	—	—	50,152
Other liabilities assumed in TPGI Merger	—	—	22,537
Contributions from noncontrolling interests in condominium units	—	—	3,050
Contributions from Parkway, net	—	1,546	—

Note 1—Organization

On April 28, 2016, the board of directors of Cousins Properties Incorporated, a Georgia corporation ("Cousins"), and the board of directors of Parkway Properties, Inc., a Maryland corporation ("Parkway"), each approved an agreement and plan of merger, dated as of April 28, 2016 (the "Merger Agreement"). Pursuant to the Merger Agreement, Cousins and Parkway will combine through a stock-for-stock merger (the "Merger"), followed by a spin-off (the "Distribution") of the Houston-based assets of both companies ("Cousins Houston" and "Parkway Houston", respectively) into a new publicly traded real estate investment trust ("REIT") called Parkway, Inc. ("New Parkway"). Cousins Houston includes the combined accounts related to the office properties of Greenway Plaza and Post Oak Central, currently operated by subsidiaries of Cousins, and certain corporate costs. Parkway Houston includes the combined accounts related to the office properties of Phoenix Tower (for all periods presented), CityWestPlace and San Felipe Plaza (acquired on December 19, 2013), fee-based real estate services (for all periods presented) and the Murano residential condominium project (acquired on December 19, 2013), currently operated through subsidiaries of Parkway, and certain corporate costs. Unless the context otherwise requires, references to the "Company" refer to Parkway Houston. New Parkway is expected to operate and elect to be treated as a REIT under the Internal Revenue Code of 1986, as amended. REITs generally are not liable for federal corporate income taxes as long as they meet certain requirements and distribute at least 90% of their taxable income.

Following the Distribution, New Parkway will own five office properties with 8.7 million rentable square feet (unaudited) in the Galleria, Greenway and Westchase submarkets of Houston, Texas. In addition, New Parkway will provide fee-based real estate services through wholly owned subsidiaries, including Eola Office Partners, LLC ("Eola"), which in total managed and/or leased approximately 4.2 million square feet (unaudited) for primarily third-party owners at December 31, 2015 and will own certain other assets previously owned by Parkway.

As of December 31, 2015, New Parkway had not conducted any business as a separate company and has no material assets or liabilities. The operations of Parkway Houston, which will be transferred to New Parkway immediately following the effective time of the Merger, are presented as if the transferred business was Parkway Houston's business for all historical periods described and at the carrying value of such assets and liabilities reflected in Parkway's books and records.

Note 2—Basis of Presentation and Consolidation

The accompanying combined financial statements include the accounts of Parkway Houston presented on a combined basis as the ownership interests are currently under common control and ownership of Parkway. All significant intercompany balances and transactions have been eliminated.

These combined financial statements are derived from the books and records of Parkway and were carved out from Parkway at a carrying value reflective of such historical cost in such Parkway records. Parkway Houston's historical financial results reflect charges for certain corporate costs and we believe such charges are reasonable; however, such results do not necessarily reflect what our expenses would have been had we been operating as a separate stand-alone public company. Costs of the services that were charged to us were based on either actual costs incurred or a proportion of costs estimated to be applicable to us. The historical combined financial information presented may therefore not be indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone public company during the periods presented or of our future performance as an independent, stand-alone company.

Parkway Houston is a predecessor, as defined in applicable rules and regulations for the Securities and Exchange Commission (the "SEC"), to the Houston Business, which will commence operations on the date of the Distribution.

These combined financial statements reflect the consolidation of properties that are wholly owned or properties in which we own less than a 100% interest but that we control. Control of a property is demonstrated by, among other factors, our ability to refinance debt and sell the property without the consent of any other partner or owner and the inability of any other partner or owner to replace us. Eola, Phoenix Tower, CityWestPlace and San Felipe Plaza were all wholly owned for all periods presented.

Parkway Houston consolidates its Murano residential condominium project which it controls. Parkway Houston's unaffiliated partner's interest is reflected on its combined balance sheets under the "Noncontrolling Interests" caption. Parkway Houston's partner has a stated ownership interest of 27%. Net proceeds from the project will be distributed, to the extent available, based on an order of preferences described in the partnership agreement. Parkway Houston may receive distributions, if any, in excess of its stated 73% ownership interest if certain return thresholds are met.

Note 3—Summary of Significant Accounting Policies

Real Estate Properties

Real estate properties are carried at cost less accumulated depreciation. Cost includes the carrying amount of Parkway Houston's investment plus any additional consideration paid, liabilities assumed and improvements made subsequent to acquisition. Depreciation of buildings and building improvements is computed using the straight-line method over the estimated useful lives of the assets. Depreciation of tenant improvements, including personal property, is computed using the straight-line method over the lesser of the useful life or the term of the lease involved. Maintenance and repair expenses are charged to expense as incurred.

Parkway Houston evaluates its real estate assets for impairment upon occurrence of significant adverse changes in its operations to assess whether any impairment indicators are present that affect the recovery of the carrying amount. The carrying amount includes the net book value of tangible and intangible assets and liabilities. Real estate assets are classified as held for sale or held and used. Parkway Houston classifies certain assets as held for sale based on management having the authority and intent of entering into commitments for sale transactions to close in the next 12 months. Parkway Houston considers an office property as held for sale once it has executed a contract for sale, allowed the buyer to complete its due diligence review and received a substantial non-refundable deposit. Until a buyer has completed its due diligence review of the asset, necessary approvals have been received and substantive conditions to the buyer's obligation to perform have been satisfied, Parkway Houston does not consider a sale to be probable. When Parkway Houston identifies an asset as held for sale, it estimates the net realizable value of such asset and discontinues recording depreciation on the asset. Parkway Houston records assets held for sale at the lower of the carrying amount or fair value less cost to sell. If the fair value of the asset net of estimated selling costs is less than the carrying amount, Parkway Houston records an impairment loss. With respect to assets classified as held and used, Parkway Houston recognizes an impairment loss if the carrying amount is not recoverable and exceeds the sum of undiscounted future cash flows expected to result from the use and eventual disposition of the asset. Upon impairment, Parkway Houston recognizes an impairment loss to reduce the carrying value of the real estate asset to the estimate of its fair value. The cash flow and fair value estimates are based on assumptions about employing the asset for its remaining useful life. Factors considered in projecting future cash flows include, but are not limited to: existing leases, future leasing and terminations, market rental rates, capital improvements, tenant improvements, leasing commissions, inflation, discount rates, capitalization rates and other known variables, and contractual purchase and sale agreements. This market information is considered a Level 2 or Level 3 input as defined by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures".

Parkway Houston recognizes gains or losses on sales of real estate at times and in amounts determined in accordance with the accounting guidance for sales of real estate. The guidance takes into account the terms of the transaction and any continuing involvement, including in the form of management, leasing of space or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, then Parkway Houston defers gain recognition and accounts for the transaction by applying the deposit, finance, installment or cost recovery methods, as appropriate.

Cash Equivalents

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

Restricted Cash

Restricted cash, which is included in receivables and other assets, primarily consists of security deposits held on behalf of Parkway Houston's tenants as well as capital improvements and real estate tax escrows required under certain loan agreements. There are restrictions on Parkway Houston's ability to withdraw these funds other than for their specified usage.

Purchase Price Assignment

Parkway Houston assigns the purchase price of real estate to tangible and intangible assets and liabilities based on fair value. Tangible assets consist of land, building, garage, building improvements and tenant improvements. Intangible assets and liabilities consist of the value of above and below market leases, lease costs, the value of in-place leases and any value attributable to above or below market debt assumed with the acquisition.

Parkway Houston engages independent third-party appraisers to perform the valuations used to determine the fair value of these identifiable tangible and intangible assets. These valuations and appraisals use commonly employed valuation techniques, such as discounted cash flow analyses. Factors considered in these analyses include an estimate of costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases. Parkway Houston also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. Parkway Houston includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on specific local market conditions and the type of property acquired. Additionally, Parkway Houston estimates costs to execute similar leases including leasing commissions, legal and other related expenses.

The fair value of above or below market in-place lease values is the present value of the difference between the contractual amount to be paid pursuant to the in-place lease and the estimated current market lease rate expected over the remaining non-cancelable life of the lease. The capitalized above market lease values are amortized as a reduction of rental income over the remaining term of the respective leases. The portion of the values of the leases associated with below-market renewal options that are likely to be exercised are amortized to rental income over the respective renewal. The capitalized below market lease values are amortized as an increase to rental income over the remaining term of the respective leases. Total amortization for above and below market leases was a net increase of rental income of $17.1 million, $16.3 million and $1.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

As of December 31, 2015, the remaining amortization of below market leases, net is projected as a net increase to rental income as follows (in thousands):

	Amount
2016	$ 6,826
2017	4,254
2018	2,476
2019	2,113
2020	1,511
Thereafter	6,285
Total	$23,465

The fair value of in-place leases is the present value associated with re-leasing the in-place lease as if the property was vacant. Factors to be considered include estimates of costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating costs, Parkway Houston includes estimates of lost rentals at market rates during the expected lease-up periods. The value of at market in-place leases is amortized as a lease cost amortization expense over the expected life of the lease. Total amortization expense for the value of in-place leases was $16.7 million, $30.1 million and $4.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

As of December 31, 2015, the remaining amortization expense for the value of in-place leases is projected as follows (in thousands):

	Amount
2016	$ 7,928
2017	4,481
2018	2,107
2019	1,532
2020	1,369
Thereafter	4,860
Total	$22,277

A separate component of the fair value of in-place leases is identified for the lease costs. The fair value of lease costs represents the estimated commissions and legal fees paid in connection with the current leases in place. Lease costs are amortized over the non-cancelable terms of the respective leases as lease cost amortization expense.

In no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a customer terminate its lease, the unamortized portion of the tenant improvement, in-place lease value and lease cost intangibles would be charged to expense. Additionally, the unamortized portion of above market in-place leases would be recorded as a reduction to rental income and the below market in-place lease value would be recorded as an increase to rental income.

Parkway Houston calculates the fair value of mortgage notes payable by discounting the remaining contractual cash flows on each instrument at the current market rate for these borrowings.

Capitalization of Costs

Costs related to planning, developing, leasing and constructing a property, including costs of development personnel working directly on projects under development, are capitalized. In addition, Parkway Houston capitalizes interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, Parkway Houston first uses the interest incurred on specific project debt, if any, and next uses Parkway Houston's weighted average interest rate for non-project specific debt. Parkway Houston also capitalizes certain costs of leasing personnel in connection with the completion of leasing arrangements.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for amounts that Parkway Houston estimates to be uncollectible. The receivable balance is comprised primarily of rent and expense reimbursement income due from the customers. Management evaluates the adequacy of the allowance for doubtful accounts considering such factors as the credit quality of the customers, delinquency of payment, historical trends and current economic conditions. Parkway Houston provides an allowance for doubtful accounts for customer balances that are over 90 days past due and for specific customer receivables for which collection is considered doubtful.

The components of allowance for doubtful accounts for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	For the Year Ended December 31,		
	2015	2014	2013
Beginning balance:	$ 38	$ 306	$ 136
Bad debt expense	261	88	351
Write-offs	(201)	(356)	(181)
Ending balance:	$ 98	$ 38	$ 306

Noncontrolling Interest

A noncontrolling interest in a subsidiary is in most cases an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. In addition, consolidated net income is required to be reported as amounts that include the amounts attributable to both the parent and the noncontrolling interest and the amount of consolidated net income attributable to the parent and the noncontrolling interest are required to be disclosed on the face of the combined statements of operations.

Revenue Recognition

Revenue from real estate rentals is recognized on a straight-line basis over the noncancelable lease term at the inception of each respective lease in accordance with ASC 840, Leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as straight-line rent receivable on the accompanying balance sheets. The straight-line rent adjustment increased revenue by $13.9 million, $6.3 million and $841,000 in 2015, 2014 and 2013, respectively.

When Parkway Houston is the owner of the tenant improvements, the leased space is ready for its intended use when the tenant improvements are substantially completed, at which point revenue recognition begins. In limited instances, when the tenant is the owner of the customer improvements, straight-line rent is recognized when the tenant takes possession of the unimproved space.

The leases also typically provide for tenant reimbursement of a portion of common area maintenance, real estate taxes and other operating expenses. Property operating cost recoveries from customers ("expense reimbursements") are recognized as revenue in the period in which the expenses are incurred. The computation of expense reimbursements is dependent on the provisions of individual customer leases. Most customers make monthly fixed payments of estimated expense reimbursements. Parkway Houston makes adjustments, positive or negative, to expense reimbursement income quarterly to adjust the recorded amounts to Parkway Houston's best estimate of the final property operating costs based on the most recent annual estimate. After the end of the calendar year, Parkway Houston computes each customer's final expense reimbursements and issues a bill or credit for the difference between the actual amount and the amounts billed monthly during the year. Differences between actual billed amounts and accrued amounts are considered immaterial.

Management company income represents market-based fees earned from providing management, construction, leasing, brokerage and acquisition services to unconsolidated joint ventures, related parties and third parties. Management fee income is computed and recorded monthly in accordance with the terms set forth in the management service agreements. Leasing and brokerage commissions, as well as salary and administrative fees, are recognized pursuant to the terms of the agreements at the time underlying leases are signed, which is the point at which the earnings process is complete and collection of fees is reasonably assured. Fees relating to the purchase or sale of property are recognized when the earnings process is complete and collection of fees is reasonably assured, which usually occurs at closing. All fees on company-owned properties are eliminated in consolidation. Parkway Houston recognizes fees earned from Parkway's unconsolidated joint ventures in management company income.

Parkway Houston has one high-rise condominium project. Under the provisions of FASB ASC 360-20, "Property, Plant and Equipment" subsection "Real Estate and Sales," revenue and costs for projects are recognized when all parties are bound by the terms of the contract, all consideration has been exchanged, any permanent financing for which the seller is responsible has been arranged and all conditions precedent to closing have been performed. This results in profit from the sale of condominium units recognized at closing. Revenue is recognized on the contract price of individual units. Total estimated costs are allocated to individual units which have closed on a relative value basis.

Amortization of Debt Origination Costs and Leasing Costs

Debt origination costs are deferred and amortized using a method that approximates the effective interest method over the term of the loan. Leasing costs are deferred and amortized using the straight-line method over the term of the respective lease.

Income Taxes

Parkway elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 1997. To qualify as a REIT, Parkway must meet a number of organizational and operational requirements, including a requirement that it distribute annually at least 90% of its "REIT taxable income," subject to certain adjustments and excluding any net capital gain to its stockholders. It is management's current intention to adhere to these requirements and maintain Parkway's REIT status, and Parkway believes that it was in compliance with all REIT requirements at December 31, 2015. As a REIT, Parkway generally will not be subject to corporate level federal income tax on taxable income it distributes currently to its stockholders. If Parkway fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if Parkway qualifies for taxation as a REIT, Parkway may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. The properties in the combined financial statements are owned directly or indirectly by partnerships, limited partnerships or limited liability companies and as a result, the allocated share of income or loss for each period is included in the income tax returns of the partners. In addition, taxable income from non-REIT activities managed through the taxable REIT subsidiary is subject to federal, state and local income taxes. Parkway provides for income taxes based on pretax income and applicable tax rates in the various jurisdictions in which it operates. The effective tax rate reflects the impact of earnings attributable to REIT operations and noncontrolling interests for which no U.S. income taxes have been provided.

Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical assets or liabilities in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar assets or liabilities in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect Parkway Houston’s best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. These inputs are unobservable in the market and significant to the valuation estimate.

Impairment of Intangible Assets

During 2014, Parkway Houston evaluated certain qualitative factors and determined that it was necessary to apply the two-step quantitative impairment test under ASU 2011-8. During the year ended December 31, 2014, Parkway Houston determined that the undiscounted cash flows indicated that the carrying amounts of certain Eola Capital, LLC (“Eola Capital”) management contracts were not expected to be recovered and, as a result, Parkway Houston recorded a \$4.8 million pre-tax non-cash impairment loss related to these management contracts which resulted in the entire remaining balance of the Eola Capital contracts being written off as of December 31, 2014. During the year ended December 31, 2015, no impairment losses were recorded on Parkway Houston’s intangible assets.

Segment Reporting

Parkway Houston’s primary business is the ownership and operation of office properties. Parkway Houston has accounted for each office property or groups of related office properties as an individual operating segment. Parkway Houston has aggregated the individual operating segments into a single reporting segment due to the fact that the individual operating segments have similar operating and economic characteristics, such as being leased by the square foot, sharing the same primary operating expenses and ancillary revenue opportunities and being cyclical in 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 standard operating procedures. The range and type of customer uses of the properties is similar throughout the portfolio regardless of location or class of building and the needs and priorities of the customers do not vary widely from building to building. Therefore, the management responsibilities do not vary widely from location to location based on the size of the building, geographic location or class. The operations of the Management Company are separately presented in the Combined Statements of Operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although Parkway Houston believes the assumptions and estimates made are reasonable and appropriate, as discussed in the applicable sections throughout these combined financial statements, different assumptions and estimates could materially impact reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions; therefore, changes in market conditions could impact Parkway Houston’s future operating results. Parkway Houston’s most significant estimates relate to impairments on real estate and other assets and purchase price assignments. Actual results could differ from these estimates.

Recent Accounting Pronouncements

Adopted

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidated Analysis.” This update amends consolidation guidance which makes changes to both the variable interest model and the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will consolidate. Parkway Houston adopted this update on January 1, 2016. The new standard must be applied using a modified retrospective approach by recording either a cumulative-effect adjustment to equity as of the beginning of the period of adoption or retrospectively to each period presented. This did not have an impact on Parkway Houston's financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. Parkway Houston adopted this update on January 1, 2016. Retrospective application of the guidance set forth in this update is required and resulted in the classification of the deferred financing costs within the combined balance sheets as a direct deduction from the carrying amount of debt within total liabilities.

Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for Parkway Houston's fiscal year beginning as early as January 1, 2019 and subsequent interim periods. Management is currently assessing this guidance for future implementation.

Note 4—Real Estate Related Investments, Net

Included in Real Estate Related Investments are three office assets located in the Galleria, Greenway and Westchase submarkets of Houston, Texas, comprising six buildings and two adjacent parcels of land totaling approximately 3.1 million square feet (unaudited).

Balances of major classes of depreciable assets (in thousands) and their respective estimated useful lives are:

		December 31,	
Asset Category	**Estimated Useful Life**	**2015**	**2014**
Land	Non-depreciable	$106,323	$106,323
Building and garage	40 years	600,562	600,562
Building improvements	7 to 40 years	14,426	4,174
Tenant improvements	Lesser of useful life or term of lease	97,283	61,898
		$818,594	$772,957

Depreciation expense related to these assets of $32.0 million, $28.8 million and $5.3 million was recognized in 2015, 2014 and 2013, respectively.

2013 Acquisitions

On December 19, 2013, in connection with Parkway's merger transactions with TPGI (such transactions, the "TPGI Mergers"), Parkway Houston assumed TPGI's ownership interest in two wholly owned office properties in Houston, Texas, CityWestPlace and San Felipe Plaza, and two parcels of land adjacent to CityWestPlace. The following table summarizes the aggregate purchase price assignment for CityWestPlace and San Felipe Plaza as of December 19, 2013 based on Level 2 and Level 3 inputs (in thousands):

	Amount
Land	$ 97,132
Building	502,537
Tenant improvements	41,697
Lease commissions	27,847
Lease in place value	61,562
Above market leases	3,176
Below market leases	(53,382)
Mortgage debt assumed	(317,688)
Mortgage premium for mortgage assumed	(9,974)

Parkway Houston's unaudited pro forma results of operations after giving to effect the purchases of CityWestPlace and San Felipe Plaza as if the purchases had occurred on January 1, 2013 is as follows (in thousands):

	2013
Revenues	$138,828
Net loss attributable to Parkway Houston	(2,465)

2012 Acquisition

On December 20, 2012, Parkway completed the purchase of Phoenix Tower, an office tower located in the Greenway Plaza submarket of Houston, Texas, for a gross purchase price of $123.8 million. Phoenix Tower is a 26-story office tower that sits atop an eight-story parking garage. On February 20, 2013, Parkway obtained an $80.0 million non-recourse first mortgage loan secured by Phoenix Tower. The mortgage loan has a fixed interest rate of 3.9%, an initial 24-month interest only period and a maturity date of March 2023. See "Note 6—Mortgage Notes Payable" for additional details.

Contractual Obligations and Minimum Rental Receipts

Obligations for tenant improvement allowances and lease commission costs for leases in place and commitments for building improvements at December 31, 2015 are as follows (in thousands):

	Amount
2016	$ 10,432
2017	37
2018	10
2019	—
2020	—
Thereafter	—
Total	$ 10,479

The following is a schedule by year of future minimum rental receipts under noncancelable leases for office buildings owned at December 31, 2015 (in thousands):

	Amount
2016	$ 87,844
2017	81,416
2018	72,966
2019	68,629
2020	64,493
Thereafter	436,128
Total	$811,476

Parkway Houston is geographically concentrated in Houston, Texas. For the years ended December 31, 2015, 2014 and 2013, five, four and six tenants in the Parkway Houston portfolio, respectively, represented more than 5% of base rent.

Note 5—Intangible Assets, Net

The following table reflects the portion of the purchase price of office properties assigned to intangible assets, as discussed in “Note 3—Summary of Significant Accounting Policies.” The portion of the purchase price assigned to below market lease value and the related accumulated amortization is reflected in “Note 8—Accounts Payable and Other Liabilities.”

	December 31,	
	2015	2014
	(In thousands)	
Lease in place value	$ 73,064	$ 73,064
Accumulated amortization	(50,787)	(34,115)
Above market lease value	3,044	3,044
Accumulated amortization	(882)	(443)
	$ 24,439	$ 41,550

Note 6—Mortgage Notes Payable, Net

On February 20, 2013, Parkway obtained an $80.0 million non-recourse first mortgage loan secured by Phoenix Tower. The mortgage loan has a fixed interest rate of 3.9%, an initial 24-month interest only period and a maturity date of March 2023.

On December 19, 2013, in connection with the TPGI Mergers, Parkway assumed the existing first mortgage loans for CityWestPlace I & II, CityWestPlace III & IV, and San Felipe Plaza.

A summary of mortgage notes payable at December 31, 2015 and 2014 is as follows (dollars in thousands):

Office Properties	Fixed Rate	Maturity Date	December 31, 2015	December 31, 2014
Phoenix Tower	3.9%	03/01/2023	$ 78,555	$ 80,000
CityWestPlace I & II	6.2%	07/06/2016	114,460	116,111
CityWestPlace III & IV	5.0%	03/05/2020	90,334	91,889
San Felipe Plaza	4.8%	12/01/2018	107,877	109,585
Unamortized premium, net			5,981	9,974
Unamortized debt issuance costs, net			(306)	(348)
Total mortgage notes payable, net			$396,901	$407,211

The aggregate annual maturities of mortgage notes payable at December 31, 2015 are as follows (in thousands):

	Amount
2016	$119,879
2017	5,670
2018	108,166
2019	4,138
2020	85,602
Thereafter	67,771
Total principal maturities	391,226
Unamortized premium, net	5,981
Unamortized debt issuance costs, net	(306)
Total Mortgage Notes Payable, net	$396,901

The fair value of mortgage notes payable was $394.3 million and $397.7 million as of December 31, 2015 and 2014, respectively. The fair value was determined using Level 2 inputs.

Note 7—Receivables and Other Assets

The following represents the composition of Receivables and Other Assets as of December 31, 2015 and 2014:

	December 31,	
	2015	2014
	(In thousands)	
Rents and fees receivable	$ 300	$ 2,093
Allowance for doubtful accounts	(98)	(38)
Straight-line rent receivable	21,073	7,149
Other receivables	3,593	5,852
Lease costs, net of accumulated amortization of $13,257 and $6,247, respectively	40,451	39,929
Escrow and other deposits	1,865	3,383
Prepaid expenses	482	585
Cost method investment	3,500	3,500
Deferred tax asset, non current	4,999	5,040
Other assets	135	164
	$76,300	$67,657

Note 8—Accounts Payable and Other Liabilities

The following represents the composition of Accounts Payable and Other Liabilities as of December 31, 2015 and 2014:

	December 31,	
	2015	2014
	(In thousands)	
Accounts payable and accrued expenses	$17,065	$14,851
Accrued property taxes	9,300	14,832
Prepaid rents	5,319	3,304
Security deposits	1,052	821
Deferred tax liability	793	470
Accrued payroll	1,248	1,446
Interest payable	1,522	1,546
	$36,299	$37,270

Note 9—Income Taxes

As a REIT, Parkway generally will not be subject to corporate level U.S. federal income tax on taxable income it distributes currently to its stockholders. If Parkway fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if Parkway qualifies for taxation as a REIT, Parkway may be subject to certain state and local taxes on its income and property, and to U.S. federal income taxes on its undistributed taxable income.

The properties in the combined financial statements are owned directly or indirectly by a limited partnership or limited liability companies and as a result, the allocated share of income or loss for each period is included in the income tax returns of the partners.

Parkway Houston has certain entities as taxable REIT subsidiaries (“TRSs”), which are tax paying entities for income tax purposes and are taxed separately from Parkway Houston. TRSs may participate in non-real estate related activities and/or perform non-customary services for customers and are subject to U.S. federal and state income tax at regular corporate tax rates. The income tax benefit (expense) and related income tax assets and liabilities are based on actual and expected future income.

As of December 31, 2015 and 2014, Parkway Houston recorded net deferred tax assets of $4.2 million and $4.6 million, respectively, related to the TRSs. Deferred tax assets generally represent items that can be used as a tax deduction in Parkway Houston’s tax returns in future years for which Parkway Houston has already recorded a tax benefit in its combined statements of operations.

The significant components of the net deferred tax assets (liabilities) as of December 31, 2015 and 2014 are as follows (in thousands):

	December 31, 2015	December 31, 2014
	(In thousands)	
Deferred tax assets		
Capitalizable transaction costs	$ 667	$ 784
Contingent consideration	1,198	1,411
Management contracts	2,022	2,377
Condominium sales	1,064	331
Other	48	137
Total deferred tax assets	4,999	5,040
Deferred tax liabilities		
Cost method investment	670	470
Other	123	—
Total deferred tax liabilities	793	470
Total deferred tax assets, net	$4,206	$4,570

FASB ASC 740-10-30 “Accounting for Income Taxes” subsection “Initial Measurement,” requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. In determining whether the deferred tax asset is realizable, Parkway Houston considers all available positive and negative evidence, including future reversal of existing taxable temporary differences, carryback potential, tax-planning strategies and its ability to generate sufficient taxable income in future years. As of December 31, 2015, Parkway Houston concludes that a valuation allowance against its deferred tax asset is not necessary.

The components of income tax benefit (expense) for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	For the Year Ended December 31, 2015	2014	2013
Current:			
Federal	$ (853)	$(2,870)	$ (490)
State	(418)	(1,713)	(194)
Total current	(1,271)	(4,583)	(684)
Deferred:			
Federal	124	3,868	1,582
State	(488)	895	378
Total deferred	(364)	4,763	1,960
Total income tax (expense) benefit	$(1,635)	$ 180	$1,276

The reconciliation of income tax expense computed at the U.S. statutory income tax rate and the income tax expense in the combined statements of operations is shown below (in thousands):

	For the Years Ended December 31,					
	2015		2014		2013	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Pre-tax income (loss) from continuing operations	$ 4,812	34.0%	$ 7,848	34.0%	$ 4,639	34.0%
Pass-through earnings without income tax provision	(5,596)	(39.5)%	(7,003)	(30.3)%	(2,649)	(19.4)%
Noncontrolling interest	(2)	— %	50	0.2%	—	— %
State income tax, net of federal tax benefit	(510)	(3.6)%	(778)	(3.4)%	58	0.4%
Effect of permanent differences	(6)	— %	(41)	(0.2)%	(291)	(2.1)%
Valuation allowance	—	— %	479	2.1%	(479)	(3.5)%
Cost method investment	—	— %	(422)	(1.8)%	—	— %
Other	(333)	(2.4)%	47	0.2%	(2)	— %
Total income tax (expense) benefit	$ (1,635)	(11.5)%	$ 180	0.8%	$ 1,276	9.4%

FASB ASC 740-10-25, "Accounting for Income Taxes" subsection "Recognition," clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Parkway Houston's policy is to recognize interest and penalties related to unrecognized tax benefits as components of income tax expense. As of December 31, 2015, there was no material unrecognized tax benefits and we do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

Note 10—Commitments and Contingencies

Parkway Houston and its subsidiaries are, from time to time, parties to litigation arising from the ordinary course of business. Parkway Houston does not believe that any such litigation will materially affect its financial position or operations.

Parkway Houston holds a 1% limited partnership interest in 2121 Market Street Associates LLC ("2121 Market Street"), which it acquired in the TPGI Mergers. A mortgage loan secured by a first trust deed on 2121 Market Street is guaranteed by Parkway Houston up to a maximum amount of $14.0 million expiring in December 2022.

Note 11—Related Party Transactions

On May 18, 2011, Parkway closed on the Contribution Agreement pursuant to which Eola Capital contributed its property management company (the "Management Company") to Parkway. In connection with the Eola Capital contribution of its Management Company to Parkway, a subsidiary of Parkway made a $3.5 million preferred equity investment in an entity 21% owned by Mr. James R. Heistand, and which is included in receivables and other assets on Parkway Houston's combined balance sheets. This investment provides that Parkway will be paid a preferred equity return equal to 7% per annum of the preferred equity outstanding. In 2015, 2014 and 2013 Parkway received preferred equity distributions on this investment in the aggregate amounts of approximately $245,000, $265,000 and $225,000, respectively. This preferred equity investment was approved by the board of directors of Parkway and is recorded as a cost method investment in receivables and other assets on the combined balance sheets.

Certain of Parkway's executive officers own interests in properties that are managed and leased by the Management Company. Parkway Houston recorded $398,000, $3.5 million and $4.0 million in management fees and $869,000, $8.8 million and $10.2 million in reimbursements related to the management and leasing of these assets for the years ended December 31, 2015, 2014 and 2013, respectively. For the years ended December 31, 2015, 2014 and 2013, Parkway Houston recorded management fees and reimbursements, net of elimination, related to the unconsolidated joint ventures of Parkway of $384,000, $4.2 million and zero, respectively.

On December 8, 2014, Parkway Houston sold the retail unit at its Murano residential condominium project to its unaffiliated joint venture partner in the project for a gross sales price of $3.5 million.

For the year ended December 31, 2013, Parkway Properties LP ("Parkway LP") recognized interest income of approximately $1.3 million related to an $80.0 million bridge loan issued by Parkway LP to TPGI in connection with the TPGI Mergers.

As discussed in Note 1, the accompanying combined financial statements present the operations of Parkway Houston as carved out from the financial statements of Parkway. Transactions between the entities have been eliminated in the combined presentation. The combined financial statements include payroll costs and benefits for on-site personnel employed by Parkway. These costs are reflected in property operating expenses on the combined statements of operations. A summary of these for each of the periods presented is as follows (in thousands):

	For the Year Ended December 31,		
	2015	2014	2013
Charged to property operating expense:			
Direct payroll charges	$2,747	$2,823	$ 568
Management fees	2,298	3,087	452
Total	$5,045	$5,910	$1,020

Lease commissions and development fees paid to Parkway's personnel and other leasing costs incurred by Parkway Houston are capitalized and amortized over the respective lease term. For the years ended December 31, 2015, 2014, and 2013, Parkway Houston capitalized $1.6 million, $982,000 and $88,000, respectively, in commissions and other leasing costs to the properties.

The expenses charged to Parkway Houston for these services are not necessarily indicative of the expenses that would have been incurred had Parkway Houston been a separate, independent entity.

Note 12—Subsequent Events

On April 6, 2016, Parkway paid in full the $114.0 million mortgage debt secured by CityWestPlace I & II.

Note 13—Subsequent Events (unaudited)

The Merger was consummated on October 6, 2016, and the Distribution was completed on October 7, 2016.

SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2015
(In thousands)

		Initial Cost to Parkway Houston			
Description	**Encumbrances** (1)	**Land**	**Building and Improvements**	**Subsequent Capitalized Costs**	**Total Real Estate**
Texas					
Phoenix Tower	$ 78,555	$ 9,191	$ 98,183	$ 15,083	$ 122,457
CityWestPlace	204,794	56,785	295,869	73,418	426,072
San Felipe Plaza	107,877	40,347	206,510	22,822	269,679
Other					
Corporate	—	—	—	386	386
Total Real Estate Owned	$ 391,226	$ 106,323	$ 600,562	$ 111,709	$ 818,594

(1) Encumbrances represent face amount of mortgage debt and exclude any premiums or discounts.

SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2015
(In thousands)

	Gross Amount at Which Carried at Close of Period							
Description	**Land**	**Building and Improvements**	**Total (1)**	**Accumulated Depreciation**	**Net Book Value of Real Estate**	**Year Acquired**	**Year Constructed**	**Depreciable Lives (Yrs.)**
Texas								
Phoenix Tower	$ 9,191	$ 113,266	$122,457	$ 13,949	$108,508	2012	1984	(2)
CityWestPlace	56,785	369,287	426,072	35,075	390,997	2013	1993-2001	(2)
San Felipe Plaza	40,347	229,332	269,679	16,842	252,837	2013	1984	(2)
Other								
Corporate	—	386	386	75	311	N/A	N/A	N/A
Total Real Estate Owned	$106,323	$ 712,271	$818,594	$ 65,941	$752,653			

(1) The aggregate cost for federal income tax purposes was approximately $682.5 million (unaudited).
(2) Depreciation of buildings is 40 years from acquisition date.

NOTE TO SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
At December 31, 2015, 2014 and 2013
(In thousands)

A summary of activity for real estate and accumulated depreciation is as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Real Estate:			
Office Properties:			
Balance at beginning of year	$772,957	$763,126	$115,759
Acquisitions and improvements	45,637	9,831	647,429
Real estate disposed	—	—	(62)
Balance at close of year	$818,594	$772,957	$763,126
Accumulated Depreciation:			
Balance at beginning of year	$ 34,111	$ 5,278	$ —
Depreciation expense	32,015	28,751	5,340
Real estate disposed	—	—	(62)
Other adjustments	(185)	82	—
Balance at close of year	$ 65,941	$ 34,111	$ 5,278

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Section 5: EX-99.2 (UNAUDITED COMBINED FINANCIAL STATEMENTS)

Exhibit 99.2

PARKWAY HOUSTON
COMBINED BALANCE SHEETS
(In thousands)
(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Real estate related investments:		
Office properties	$ 831,811	$ 818,594
Accumulated depreciation	(86,179)	(65,941)
Total real estate related investments, net	745,632	752,653
Cash and cash equivalents	11,792	11,961
Receivables and other assets	79,667	76,300
Intangible assets, net	17,872	24,439
Management contract intangibles, net	—	378
Total assets	$ 854,963	$ 865,731
Liabilities		
Mortgage notes payable, net	$ 276,744	$ 396,901
Accounts payable and other liabilities	30,128	36,299
Below market leases, net of accumulated amortization of $41,376 and $36,175, respectively	18,264	23,465
Total liabilities	325,136	456,665
Equity		
Legacy Parkway equity	529,827	409,066
Total liabilities and equity	$ 854,963	$ 865,731

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF OPERATIONS
(In thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Income from office properties	$26,496	$28,851	$82,275	$ 80,731
Management company income	1,161	2,225	3,753	7,748
Sale of condominium units	—	1,209	—	11,045
Total revenues	27,657	32,285	86,028	99,524
Expenses				
Property operating expenses	12,760	12,807	39,127	35,400
Management company expenses	906	2,238	2,912	7,812
Cost of sales - condominium units	—	988	—	11,079
Depreciation and amortization	9,309	14,006	30,314	40,634
General and administrative	1,894	1,634	4,787	4,821
Total expenses	24,869	31,673	77,140	99,746
Operating income (loss)	2,788	612	8,888	(222)
Other income and expenses				
Interest and other income	61	62	192	184
Gain on extinguishment of debt	—	—	154	—
Interest expense	(2,899)	(4,018)	(9,854)	(12,094)
Loss before income taxes	(50)	(3,344)	(620)	(12,132)
Income tax expense	(353)	(441)	(1,113)	(802)
Net loss	(403)	(3,785)	(1,733)	(12,934)
Net loss attributable to noncontrolling interests	—	—	—	7
Net loss attributable to Parkway Houston	$ (403)	$ (3,785)	$ (1,733)	$(12,927)

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENT OF CHANGES IN EQUITY
(In thousands)
(unaudited)

	Parkway Equity
Balance at December 31, 2015	$409,066
Net loss	(1,733)
Contributions from Legacy Parkway, net	122,494
Balance at September 30, 2016	$529,827

See notes to combined financial statements.

PARKWAY HOUSTON
COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating activities		
Net loss	$ (1,733)	$(12,934)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization of office properties	30,314	40,634
Amortization of management contract intangibles, net	378	567
Amortization of below market leases, net	(4,596)	(12,564)
Amortization of financing costs	32	32
Amortization of debt premium, net	(1,687)	(2,980)
Deferred income tax expense (benefit)	566	(176)
Gain on extinguishment of debt	(154)	—
Increase in deferred leasing costs	(6,229)	(7,165)
Changes in operating assets and liabilities:		
Change in condominium units	—	9,318
Change in receivables and other assets	(2,015)	(5,412)
Change in accounts payable and other liabilities	(5,971)	(3,974)
Cash provided by operating activities	8,905	5,346
Investing activities		
Improvements to real estate	(13,220)	(31,817)
Cash used in investing activities	(13,220)	(31,817)
Financing activities		
Principal payments on mortgage notes payable	(118,348)	(4,615)
Change in Legacy Parkway investment, net	122,494	33,823
Distributions to noncontrolling interest holders in properties	—	(901)
Cash provided by financing activities	4,146	28,307
Change in cash and cash equivalents	(169)	1,836
Cash and cash equivalents at beginning of period	11,961	7,992
Cash and cash equivalents at end of period	$ 11,792	$ 9,828
Supplemental Cash Flow Information:		
Cash paid for interest	$ 11,878	$ 15,084
Cash paid for income taxes	1,044	1,577

See notes to combined financial statements.

Note 1—Organization

On April 28, 2016, the board of directors of Cousins Properties Incorporated, a Georgia corporation ("Cousins"), and the board of directors of Parkway Properties, Inc., a Maryland corporation ("Legacy Parkway"), each approved an Agreement and Plan of Merger, dated as of April 28, 2016 (the "Merger Agreement"). On October 6, 2016, pursuant to the Merger Agreement, Legacy Parkway merged with and into Clinic Sub Inc., with Clinic Sub Inc. continuing as the surviving corporation and a wholly owned subsidiary of Cousins (the "Merger"). Immediately following the effective time of the Merger, in accordance with the Merger Agreement, Cousins separated the portion of its combined businesses relating to the ownership of real properties in Houston, Texas, as well as Legacy Parkway's fee-based real estate services (the "Third-Party Services Business" and together with the Houston real properties, the "Houston Business"), from the remainder of the combined businesses (the "Separation"). In connection with the Separation, Cousins and Legacy Parkway reorganized the combined businesses through a series of transactions (the "Reorganization") pursuant to which the Houston Business was transferred to Parkway, Inc. (the "Company"). On October 7, 2016, Cousins completed the Spin-Off of the Company, by distributing all of the outstanding shares of common and limited voting stock of the Company to the holders of Cousins common and limited voting preferred stock as of the record date, October 6, 2016 (the "Spin-Off").

The Company was incorporated as a Maryland corporation on June 3, 2016 and was capitalized on June 29, 2016, and, as of September 30, 2016, the Company's sole stockholder was Legacy Parkway.

Following the Merger and Spin-Off, the Company owns and operates five office assets with 8.7 million rentable square feet (unaudited) in the Galleria, Greenway and Westchase submarkets of Houston, Texas. In addition, the Company operates the Third-Party Services Business through a wholly owned subsidiary, Eola Office Partners, LLC and its wholly owned subsidiaries (collectively, "Eola"), which in total managed and/or leased approximately 4.0 million square feet (unaudited) for primarily third-party owners as of September 30, 2016.

The combined financial statements included herein represent the combined accounts and combined operations of the Houston Business previously owned and operated by Legacy Parkway as of September 30, 2016 ("Parkway Houston").

Note 2—Basis of Presentation and Consolidation

The accompanying combined financial statements include the accounts of Parkway Houston presented on a combined basis as the ownership interests previously were under common control and ownership of Legacy Parkway during the reported periods. All significant intercompany balances and transactions have been eliminated.

These combined financial statements are derived from the books and records of Legacy Parkway and were carved out from Legacy Parkway at a carrying value reflective of such historical cost in such Legacy Parkway records. Parkway Houston's historical financial results reflect charges for certain corporate costs and Parkway Houston believes such charges are reasonable; however, such results do not necessarily reflect what Parkway Houston's expenses would have been had Parkway Houston been operating as an independent, stand-alone public company. Costs of the services that were charged to Parkway Houston were based on either actual costs incurred or a proportion of costs estimated to be applicable to Parkway Houston. The historical combined financial information presented may therefore not be indicative of the results of operations, financial position or cash flows that would have been obtained if Parkway Houston had been an independent, stand-alone public company during the periods presented or of Parkway Houston's future performance as an independent, stand-alone company.

Parkway Houston is a predecessor, as defined in applicable rules and regulations for the Securities and Exchange Commission, to the Company, which commenced operations on the date of the Spin-Off.

These combined financial statements reflect the consolidation of properties that are wholly owned or properties in which, prior to the Merger, the Separation, the Reorganization and the Spin-off, Legacy Parkway owned less than a 100% interest but that Legacy Parkway controlled. Control of a property is demonstrated by, among other factors, Parkway Houston's ability to refinance debt and sell the property without the consent of any other partner or owner and the inability of any other partner or owner to replace Legacy Parkway. Eola, Phoenix Tower, CityWestPlace and San Felipe Plaza were all wholly owned by Legacy Parkway for all periods presented.

Parkway Houston consolidates its Murano residential condominium project which it controls. Parkway Houston's unaffiliated partner's interest is reflected on its combined balance sheets under the "Noncontrolling Interests" caption. Parkway Houston's partner has a stated ownership interest of 27%. Net proceeds from the project will be distributed, to the extent available, based on an order of preferences described in the partnership agreement. Parkway Houston may receive distributions, if any, in excess of its stated 73% ownership interest if certain return thresholds are met.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although management believes the assumptions and estimates made are reasonable and appropriate, as discussed in the applicable sections throughout these combined financial statements, different assumptions and estimates could materially impact reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions; therefore, changes in market conditions could impact Parkway Houston's future operating results. The Company's most significant estimates relate to impairments on real estate and other assets and purchase price assignments. Actual results may differ from these estimates and assumptions.

Recent Accounting Pronouncements

Adopted

In February 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Updates ("ASU") No. 2015-02, "Amendments to the Consolidated Analysis." This update amends consolidation guidance which makes changes to both the variable interest model and the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will consolidate. Parkway Houston adopted this update on January 1, 2016. The new standard must be applied using a modified retrospective approach by recording either a cumulative-effect adjustment to equity as of the beginning of the period of adoption or retrospectively to each period presented. This did not have an impact on Parkway Houston's financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. Parkway Houston adopted this update on January 1, 2016. Retrospective application of the guidance set forth in this update is required and resulted in the classification of the deferred financing costs within the combined balance sheets as a direct deduction from the carrying amount of debt within total liabilities.

Not Yet Adopted

In 2015, the FASB voted to defer ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the new guidance, companies will recognize revenue when the seller satisfies a performance obligation, which would be when the buyer takes control of the good or service. This new guidance could result in different amounts of revenue being recognized and could result in revenue being recognized in different reporting periods than under the current guidance. The standard specifically excludes revenue associated with lease contracts. The guidance is effective for periods beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016. Management is currently assessing the potential impact of adopting the new guidance.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for Parkway Houston's fiscal year beginning as early as January 1, 2019 and subsequent interim periods. Management is currently assessing this guidance for future implementation.

Note 3—Real Estate Related Investments, Net

Included in real estate related investments, net are three office assets located in the Galleria, Greenway and Westchase submarkets of Houston, Texas, comprising six buildings and two adjacent parcels of land totaling approximately 3.1 million square feet (unaudited).

Balances of major classes of depreciable assets and their respective estimated useful lives are (in thousands):

Asset Category	Useful Life	September 30, 2016	December 31, 2015
Land	Non-depreciable	$ 106,323	$ 106,323
Buildings and garages	40 years	600,562	600,562
Building improvements	7 to 40 years	18,440	14,426
Tenant improvements	Lesser of useful life or term of lease	106,486	97,283
		$ 831,811	$ 818,594

Note 4—Mortgage Notes Payable, Net

A summary of mortgage notes payable, net at September 30, 2016 and December 31, 2015 is as follows (dollars in thousands):

Office Properties	Fixed Rate	Maturity Date	September 30, 2016	December 31, 2015
Phoenix Tower	3.87%	03/01/2023	$ 77,067	$ 78,555
CityWestPlace I and II	6.16%	07/06/2016	—	114,460
CityWestPlace III and IV	5.03%	03/05/2020	89,116	90,334
San Felipe Plaza	4.78%	12/01/2018	106,541	107,877
Unamortized premium, net			4,294	5,981
Unamortized debt issuance costs, net			(274)	(306)
Total mortgage notes payable, net			$ 276,744	$ 396,901

On April 6, 2016, Legacy Parkway paid in full the $114.0 million mortgage debt secured by CityWestPlace I and II and recognized a gain on extinguishment of debt of $154,000 during the nine months ended September 30, 2016. This paydown has been reflected as a capital contribution for Parkway Houston.

The fair value of mortgage notes payable was $278.4 million and $394.3 million as of September 30, 2016 and December 31, 2015, respectively. The fair value was determined using Level 2 inputs. Level 2 inputs are observable information for similar items in active or inactive markets and appropriately consider counterparty creditworthiness in the valuations.

Note 5—Commitments and Contingencies

Parkway Houston and its subsidiaries are, from time to time, parties to litigation arising from the ordinary course of business. Parkway Houston does not believe that any such litigation will materially affect its business or financial condition or operations.

Parkway Houston holds a 1% limited partnership interest (acquired on December 19, 2013) in 2121 Market Street Associates LLC ("2121 Market Street"). A mortgage loan secured by a first trust deed on 2121 Market Street is guaranteed by Parkway Houston up to a maximum amount of $14.0 million expiring in December 2022.

Note 6—Related Party Transactions

As discussed in Note 1 and Note 2, the accompanying combined financial statements present the operations of Parkway Houston as carved out from the financial statements of Legacy Parkway. Transactions between the entities have been eliminated in the combined presentation. The combined financial statements include payroll costs and benefits for on-site personnel employed by Legacy Parkway. These costs are reflected in property operating expenses on the combined statements of operations. A summary of these for each of the periods presented is as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Charged to property operating expense:				
Direct payroll charges	$ 804	$ 699	$ 2,411	$ 1,985
Management fees	703	572	2,137	1,745
Other allocated expenses	359	419	1,130	1,239
Total	$ 1,866	$ 1,690	$ 5,678	$ 4,969

Lease commissions and development fees paid to Legacy Parkway's personnel and other leasing costs incurred by Parkway Houston are capitalized and amortized over the respective lease term. For the three months ended September 30, 2016 and 2015, Parkway Houston capitalized $144,000 and $255,000, respectively, in commissions and other leasing costs to the properties. For the nine months ended September 30, 2016 and 2015, Parkway Houston capitalized $403,000 and $668,000, respectively, in commissions and other leasing costs to the properties.

The expenses charged to Parkway Houston for these services are not necessarily indicative of the expenses that would have been incurred had Parkway Houston been an independent, stand-alone public company.

On May 18, 2011, Legacy Parkway entered into a contribution agreement pursuant to which Eola contributed its property management company (the "Management Company") to Legacy Parkway. In connection with the Eola contribution of the Management Company to Legacy Parkway, a subsidiary of Legacy Parkway made a $3.5 million preferred equity investment in an entity 21% owned by Mr. James R. Heistand, and which is included in receivables and other assets on Parkway Houston's combined balance sheets. This investment provides that Legacy Parkway will be paid a preferred equity return equal to 7% per annum of the preferred equity outstanding. For the three and nine months ended September 30, 2016 and 2015, Parkway Houston received preferred equity distributions on this investment in the aggregate amounts of $61,250 and $183,750, respectively. This preferred equity investment was approved by the board of directors of Legacy Parkway, and recorded as a cost method investment in receivables and other assets on the balance sheets.

Certain of Legacy Parkway's executive officers own interests in properties that are managed and leased by the Management Company. During the three months ended September 30, 2016 and 2015, Parkway Houston recorded approximately $80,000 and $69,000 in management fees, respectively, and $191,000 in reimbursements related to the management and leasing of these assets during the three months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016 and 2015, Parkway Houston recorded approximately $236,000 and $299,000 in management fees, respectively, and $579,000 and $727,000, respectively, in reimbursements related to the management and leasing of these assets.

On September 28, 2016, Eola entered into an agreement and side letter with affiliates of TPG VI Pantera Holdings, L.P. (“TPG Pantera”) and TPG VI Management, LLC (“TPG Management,” and, together with TPG Pantera, the “TPG Parties”) pursuant to which Eola performs property management, accounting and finance services for such TPG Party affiliates at certain assets owned by such TPG Party affiliates (collectively, the “TPG Owner”). The agreement has a one-year term. Pursuant to the agreement and side letter, Eola will receive a monthly management fee equal to approximately 2.5% of the aggregate gross revenues received from the operation of the properties and is reimbursed for certain personnel expenses. Eola has not recorded any management fees or reimbursements related to this agreement for the periods presented.

Note 7—Subsequent Events

The Merger, the Separation and the Reorganization were consummated on October 6, 2016, and the Spin-Off was completed on October 7, 2016.

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Section 6: EX-99.3 (AUDITED COMBINED FINANCIAL STATEMENTS)

Exhibit 99.3

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Cousins Properties Incorporated
Atlanta, Georgia

We have audited the accompanying combined balance sheets of Cousins Houston (the “Company”) as of December 31, 2015 and 2014, and the related combined statements of operations, equity, and cash flows for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (inception) to December 31, 2013. Our audits also included the accompanying financial statement schedule. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Cousins Houston as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (inception) to December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the combined financial statements, the combined financial statements of Cousins Houston include allocations of certain operating expenses from Cousins Properties Incorporated. These costs may not be reflective of the actual costs which would have been incurred had Cousins Houston operated as an independent, stand-alone entity separate from Cousins Properties Incorporated.

/s/ DELOITTE & TOUCHE LLP
Atlanta, Georgia
June 30, 2016

COUSINS HOUSTON
COMBINED BALANCE SHEETS

	As of December 31, 2015	2014
	(in thousands)	
Assets		
Operating Properties, net of accumulated depreciation of $111,949 and $66,228 in 2015 and 2014, respectively	$1,086,451	$1,077,290
Cash and cash equivalents	109	684
Deferred rents receivable	22,798	13,914
Accounts receivable	4,549	3,004
Intangible assets, net of accumulated amortization of $61,567 and $42,641 in 2015 and 2014, respectively	72,166	91,092
Other assets	2,163	2,371
Total Assets	$1,188,236	$1,188,355
Liabilities and Equity		
Liabilities		
Note payable	$ 180,937	$ 184,097
Accounts payable and accrued liabilities	47,126	44,366
Intangible liabilities, net of accumulated amortization of $20,107 and $13,119 in 2015 and 2014, respectively	41,089	48,078
Other liabilities	2,212	2,017
Total liabilities	271,364	278,558
Commitments and contingencies	—	—
Equity	916,872	909,797
TOTAL LIABILITIES AND EQUITY	$1,188,236	$1,188,355

See notes to combined financial statements

COUSINS HOUSTON
COMBINED STATEMENTS OF OPERATIONS

	Years ended December 31, 2015	Years ended December 31, 2014	Period from February 7, 2013 (date of inception) to December 31, 2013
		(in thousands)	
Revenues:			
Rental property revenues	$ 177,890	$ 184,536	$ 72,696
Other	—	31	11
	177,890	184,567	72,707
Costs and Expenses:			
Rental property operating expenses	74,162	79,625	31,759
General and administrative expenses	6,328	7,347	3,793
Depreciation and amortization	63,791	77,760	29,146
Interest expense	7,988	8,127	2,618
Acquisition and related costs	—	—	3,858
	152,269	172,859	71,174
Net Income	$ 25,621	$ 11,708	$ 1,533

See notes to combined financial statements

COUSINS HOUSTON
COMBINED STATEMENTS OF EQUITY

	Amount (in thousands)
Balance at inception, February 7, 2013	$ —
Contributions by Cousins, net	935,414
Net income	1,533
Balance, December 31, 2013	936,947
Distributions to Cousins, net	(38,858)
Net income	11,708
Balance, December 31, 2014	909,797
Distributions to Cousins, net	(18,546)
Net income	25,621
Balance, December 31, 2015	$ 916,872

See notes to combined financial statements.

COUSINS HOUSTON
COMBINED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	Years Ended December 31, 2014	Period from February 7, 2013 (date of inception) to December 31, 2013
		(in thousands)	
Net income	$ 25,621	$ 11,708	$ 1,533
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	63,791	77,760	29,146
Amortization of loan closing costs	179	177	59
Effect of certain non-cash adjustments to rental revenues	(14,626)	(17,895)	(6,868)
Bad debt expense (recovery)	(321)	464	109
Changes in operating assets and liabilities			
Accounts receivable and other assets, net	(1,224)	482	(9,055)
Operating liabilities	2,975	7,524	26,846
Net cash provided by operating activities	76,395	80,220	41,770
Cash Flows From Investing Activities			
Purchase of properties	—	—	(1,148,388)
Property improvements and tenant asset expenditures	(55,085)	(37,478)	(15,857)
Net cash used in investing activities	(55,085)	(37,478)	(1,164,245)
Cash Flows from Financing Activities			
Change in Cousins' investment, net	(18,546)	(38,858)	935,414
Payment of loan issuance costs	—	—	(1,249)
Proceeds from note payable	—	—	188,830
Repayment of note payable	(3,339)	(3,200)	(520)
Net cash provided by (used in) financing activities	(21,885)	(42,058)	1,122,475
Net (Decrease) Increase in Cash	(575)	684	—
Cash at Beginning of Period	684	—	—
Cash at End of Period	$ 109	$ 684	$ —
Supplemental Cash Flow Information:			
Cash paid for interest	$ 7,821	$ 7,960	$ 1,891
Change in accrued property and tenant asset expenditures	$ (214)	$ (731)	$ 1,622

See notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1—Organization And Basis Of Presentation

Proposed Transaction. Cousins, Parkway, Parkway Properties LP and Clinic Sub Inc., a wholly owned subsidiary of Cousins, entered into an agreement and plan of merger, dated as of April 28, 2016 (as amended from time to time, the "Merger Agreement"). Pursuant to the Merger Agreement, Cousins and Parkway will combine through a stock-for-stock merger (the "Merger"), followed by a spin-off of the combined Houston-based assets of both companies (the "Houston Business") into a new publicly traded real estate investment trust ("REIT") called Parkway Inc. ("New Parkway").

The spin-off of New Parkway will be accomplished by the distribution of all of the shares of common stock and limited voting stock of New Parkway to holders of shares of Cousins common stock and Cousins limited voting preferred stock (including legacy Parkway common stockholders and limited voting stockholders) on the business day following the closing of the Merger (the "Distribution").

Basis of Presentation. The combined financial statements included herein represent the combined accounts and combined operations of the portion of the Houston Business owned and operated by Cousins ("Cousins Houston"). Cousins Houston includes the combined accounts related to the office properties of Greenway Plaza and Post Oak Central, currently operated through subsidiaries of Cousins, and certain corporate costs. The assets and liabilities in these combined financial statements represent historical carrying amounts of the following properties:

	Acquisition Date	Number of Office Buildings	Total Square Feet
Post Oak Central	February 7, 2013	3	1,280,000
Greenway Plaza	September 9, 2013	10	4,348,000
		13	5,628,000

Cousins Houston is a predecessor, as defined in applicable rules and regulations of the Securities and Exchange Commission, to the Houston Business, which will commence operations on the date of the Distribution.

Cousins Houston presents its financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") as outlined in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification (the "Codification" or "ASC"). The Codification is the single source of authoritative accounting principles applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Intercompany transactions and balances have been eliminated.

For the periods presented, there were no items of other comprehensive income. Therefore, no presentation of comprehensive income is required.

Allocated Costs. The historical financial results for Cousins Houston include certain allocated corporate costs which Cousins Houston believes are reasonable. These costs were incurred by Cousins and estimated to be applicable to Cousins Houston based on proportionate leasable square footage. Such costs do not necessarily reflect what the actual costs would have been if Cousins Houston were operating as a separate stand-alone public company. These costs are discussed further in "Note 3—Related Party Transactions."

Recently Issued Accounting Standards. In 2015, the FASB voted to defer ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the new guidance, companies will recognize revenue when the seller satisfies a performance obligation, which would be when the buyer takes control of the good or service. This new guidance could result in different amounts of revenue being recognized and could result in revenue being recognized in different reporting periods than under the current guidance. The standard specifically excludes revenue associated with lease contracts. The guidance is effective for periods beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016. Cousins is currently assessing the potential impact of adopting the new guidance.

In February 2016, the FASB issued ASU 2016-02, “Leases,” which amends the existing standards for lease accounting by requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting and reporting. The new standard will require lessees to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, and classify such leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method (finance leases) or on a straight-line basis over the term of the lease (operating leases). Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes previous leasing standards. The guidance is effective for the fiscal years beginning after December 15, 2018 with early adoption permitted. Cousins is currently assessing the potential impact of adopting the new guidance.

Note 2—Significant Accounting Policies

Real Estate Assets

***Cost Capitalization*.** Cousins Houston capitalizes costs related to property and tenant improvements, including allocated costs of Cousins’ personnel working directly on projects. Cousins Houston capitalizes direct leasing costs related to leases that are probable of being executed. These costs include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement, and costs incurred by personnel of Cousins that are based on time spent on successful leases. Cousins Houston allocates these costs to individual tenant leases and amortizes them over the related lease term.

***Impairment*.** For real estate assets that are considered to be held for sale according to accounting guidance, Cousins Houston records impairment losses if the fair value of the asset net of estimated selling costs is less than the carrying amount. For those long-lived assets that are held and used according to accounting guidance, management reviews each asset for the existence of any indicators of impairment. If indicators of impairment are present, Cousins Houston calculates the expected undiscounted future cash flows to be derived from such assets. If the undiscounted cash flows are less than the carrying amount of the asset, Cousins Houston reduces the asset to its fair value.

***Acquisition of Operating Properties*.** Cousins Houston records the acquired tangible and intangible assets and liabilities and assumed liabilities of operating property acquisitions at fair value at the acquisition date. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land, buildings and improvements, and identified tangible and intangible assets and liabilities associated with in-place leases, including leasing costs, value of above-market and below-market tenant leases, value of above-market and below-market ground leases, acquired in-place lease values, and tenant relationships, if any.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements, and leasing costs are based upon current market replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. The amounts recorded for above-market and below-market leases are included in intangible assets and intangible liabilities, respectively, and are amortized on a straight-line basis into rental property operating revenues over the remaining terms of the applicable leases.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount recorded for acquired in-place leases is included in intangible assets and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases.

Depreciation and Amortization. Real estate assets are stated at depreciated cost less impairment losses, if any. Buildings are depreciated over their estimated useful lives, which range from 30 to 42 years. The life of a particular building depends upon a number of factors including whether the building was developed or acquired and the condition of the building upon acquisition. Furniture, fixtures and equipment are depreciated over their estimated useful lives of five years. Tenant improvements, leasing costs and leasehold improvements are amortized over the term of the applicable leases or the estimated useful life of the assets, whichever is shorter. Cousins Houston accelerates the depreciation of tenant assets if it estimates that the lease term will end prior to the termination date. This acceleration may occur if a tenant files for bankruptcy, vacates its premises or defaults in another manner on its lease. Deferred expenses are amortized over the period of estimated benefit. Cousins Houston uses the straight-line method for all depreciation and amortization.

Revenue Recognition

Cousins Houston recognizes contractual revenues from leases on a straight-line basis over the noncancelable lease term at the inception of each respective lease in accordance with ASC 840, Leases. In addition, leases typically provide for reimbursement of the tenants' share of real estate taxes, insurance, and other operating expenses to Cousins Houston. Operating expense reimbursements are recognized as the related expenses are incurred. For the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013, the Company recognized $59.1 million, $59.2 million, and $21.3 million, respectively, in revenues from tenants related to reimbursement of operating expenses.

Cousins Houston makes valuation adjustments to all tenant-related accounts receivable based upon its estimate of the likelihood of collectability. The amount of any valuation adjustment is based on the tenant's credit and business risk, history of payment, and other factors considered by management.

Income Taxes

Cousins Houston's properties are currently owned by Cousins, a Georgia corporation which has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, Cousins is not subject to federal income tax provided it distributes annually its adjusted taxable income, as defined in the Code, to stockholders and meets certain other organizational and operating requirements. Accordingly, the combined financial statements of Cousins Houston do not include a provision for federal income tax.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly-liquid money market instruments with maturities of three months or less.

Segment Disclosure

Cousins Houston is in the business of the ownership, development and management of office real estate. Cousins Houston has aggregated its office operations into one reportable segment. This segment is the aggregation of the aforementioned Cousins Houston office properties as reported to the Chief Operating Decision Maker and is aggregated due to the properties having similar economic and geographic characteristics.

Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect Cousins Houston’s best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

Note 4 includes fair values of assets acquired and liabilities assumed in business combinations using Level 2 and Level 3 inputs. Note 6 includes fair values of debt measured using Level 2 inputs.

Use of Estimates

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

Note 3—Related Party Transactions

The combined financial statements include direct payroll costs and benefits for on-site personnel employed by Cousins. These costs are reflected in rental property operating expenses on the Combined Statements of Operations. As described in Note 2, also included are costs for certain functions and services performed by Cousins including, but not limited to, corporate-level salaries and other related costs, stock compensation, and other general and administrative costs. These costs were allocated to Cousins Houston based on proportionate leasable square footage which management believes is an appropriate estimate of usage. These costs are reflected as general and administrative expenses on the Combined Statements of Operations. The expenses allocated to Cousins Houston for these services are not necessarily indicative of the expenses that would have been incurred had Cousins Houston been a separate, independent entity that had otherwise managed these functions. A summary of these costs for each of the periods presented is as follows (in thousands):

	For the year ended December 31, 2015	For the year ended December 31, 2014	For the period from February 7, 2013 (date of inception) to December 31, 2013
Charged to rental property operating expenses:			
Direct payroll charges	$6,826	$6,678	$ 2,471
Other allocated expenses	2,043	2,178	1,257
Charged to general and administrative expenses:			
Office rental expense	337	329	149
Payroll and other expenses	5,991	7,018	3,644

Leasing commissions paid to Cousins’ personnel and other leasing costs incurred by Cousins are capitalized and amortized over the respective lease term. For the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013, the Company capitalized $3.8 million, $2.5 million and $237,000, respectively, in commissions and other leasing costs to the properties.

Note 4—Real Estate Transactions

In 2013, Cousins Houston purchased Post Oak Central, a 1.3 million square foot, Class-A office complex in the Galleria district of Houston, Texas for $230.9 million. Also in 2013, Cousins Houston acquired Greenway Plaza, a 10-building, 4.3 million square foot office complex in Houston, Texas, for $928.6 million. Cousins Houston incurred $231,000 and $3.7 million in acquisition and related costs for Post Oak Central and Greenway Plaza, respectively.

The following tables summarize allocations of the estimated fair values of the assets and liabilities of the operating properties at the acquisition dates discussed above (in thousands and excludes certain operating assets and liabilities assumed) (in thousands):

	Post Oak Central	Greenway Plaza	Total
Tangible assets:			
Land and improvements	$ 88,406	$ 273,651	$ 362,057
Building	118,470	499,262	617,732
Tenant improvements	10,877	96,284	107,161
Total tangible assets	217,753	869,197	1,086,950
Intangible assets:			
Above-market leases	995	3,466	4,461
In-place leases	26,968	101,047	128,015
Below-market ground leases	—	1,257	1,257
Total intangible assets	27,963	105,770	133,733
Intangible liabilities:			
Below-market leases	(14,792)	(43,896)	(58,688)
Above-market ground lease	—	(2,508)	(2,508)
	(14,792)	(46,404)	(61,196)
Net assets acquired	$230,924	$ 928,563	$1,159,487

The following unaudited supplemental pro forma information is presented for the period from February 7, 2013 to December 31, 2013 and reflects Cousins Houston's historical combined statements of operations, adjusted as if the Greenway Plaza acquisition occurred on February 7, 2013. The supplemental pro forma information is not necessarily indicative of the actual results that would have been achieved had the transaction been consummated on such date (in thousands).

	Amount
Revenues	$144,575
Net income	5,962

Note 5—Intangible Assets

Intangible assets on Cousins Houston's balance sheet at December 31, 2015 and 2014 included the following (in thousands):

	As of December 31, 2015	As of December 31, 2014
	(in thousands)	
In-place leases, net of accumulated amortization of $58,715 and $40,699 in 2015 and 2014, respectively	$69,300	$87,316
Above-market leases, net of accumulated amortization of $2,852 and $1,942 in 2015 and 2014, respectively	2,866	3,776
	$72,166	$91,092

Aggregate net amortization expense related to intangible assets and liabilities was $11.9 million, $21.6 million and $8.2 million for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013, respectively. Over the next five years and thereafter, aggregate amortization of these intangible assets and liabilities is anticipated to be as follows (in thousands):

	Below Market Rents	Above Market Rents	In-Place Leases	Total
		(in thousands)		
2016	$ (6,093)	$ 691	$ 13,423	$ 8,021
2017	(5,830)	427	11,730	6,327
2018	(5,472)	378	10,146	5,052
2019	(5,201)	305	8,646	3,750
2020	(3,459)	238	5,850	2,629
Thereafter	(15,034)	827	19,505	5,298
	$ (41,089)	$ 2,866	$ 69,300	$31,077
Weighted average remaining lease term	9.3 years	8.2 years	7.3 years	

Note 6—Note Payable

In September 2013, Cousins Houston entered into a $188.8 million non-recourse mortgage notes payable secured by Post Oak Central. The note bears interest at 4.26%, and the maturity date is October 1, 2020. In connection with this note payable, Cousins Houston incurred $1.2 million in loan costs. These costs, net of accumulated amortization of $416,000 and $237,000 in 2015 and 2014, respectively, are reflected as a reduction of the loan balance on the accompanying balance sheets. Future principal payments due on the note at December 31, 2015 are as follows (in thousands):

	Amount
2016	$ 3,485
2017	3,636
2018	3,794
2019	3,959
2020	166,896
	$181,770

Fair value of debt is calculated by discounting the debt's remaining contractual cash flows at estimated rates at which similar loans could have been obtained. The estimate of the current market rate is intended to replicate debt of similar maturity and loan-to-value relationships. These fair value calculations are considered to be Level 2 under the guidelines set forth in ASC 820, as Cousins Houston utilizes market rates for similar type loans from third party brokers. At December 31, 2015 and 2014, the fair value of this financial instrument and the related discount rate assumptions are summarized as follows (in thousands):

	As of December 31,	
	2015	2014
	(in thousands)	
Carrying value	$180,937	$184,097
Fair value	$186,449	$196,909
Discount rate assumed in calculating fair value	3.65%	3.00%

Note 7—Commitments and Contingencies

Commitments

Cousins Houston had a total of $60.7 million in future obligations under leases to fund tenant improvements at December 31, 2015. Amounts due under these lease commitments are as follows (in thousands):

	Amount
2016	$ 29,132
2017	8,047
2018	8,047
2019	7,721
2020	7,721
	$ 60,668

Litigation

Cousins Houston is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. Cousins Houston records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, Cousins Houston accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, Cousins Houston accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, Cousins Houston discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, Cousins Houston discloses the nature and estimate of the possible loss of the litigation. Cousins Houston does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote or where the estimated loss would not be material. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of Cousins Houston.

Note 8—Future Minimum Rents

Cousins Houston’s leases typically contain escalation provisions and provisions requiring tenants to pay a pro rata share of operating expenses. The leases typically include renewal options and are classified and accounted for as operating leases.

At December 31, 2015, future minimum rents to be received under existing non-cancellable leases are as follows:

	Amount
2016	$ 94,855
2017	93,191
2018	93,662
2019	87,524
2020	65,732
Thereafter	295,794
	$730,758

SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION

COUSINS HOUSTON

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2015

Description/ Metropolitan Area	Encumbrances	Initial Cost to Company: Land and Improvements	Initial Cost to Company: Buildings and Improvements	Costs Capitalized Subsequent to Acquisition: Land and Improvements less Cost of Sales, Transfers and Other	Costs Capitalized Subsequent to Acquisition: Building and Improvements less Cost of Sales, Transfers and Other	Gross Amount at Which Carried at Close of Period: Land and Improvements less Cost of Sales, Transfers and Other	Gross Amount at Which Carried at Close of Period: Building and Improvements less Cost of Sales, Transfers and Other	Total[(a)]	Accumulated Depreciation[(a)(b)]	Date of Construction/ Renovation	Date Acquired	Life on Which Depreciation in the 2015 Statement of Operations is Computed[(c)]
						(in thousands)						
Greenway Plaza Houston, TX	$ —	$ 273,651	$ 595,547	$ —	$ 76,544	$ 273,651	$ 672,091	$ 945,742	$ 85,616	—	2013	30 years
Post Oak Central Houston, TX	181,770	87,264	129,347	—	36,047	87,264	165,394	252,658	26,333	—	2013	42 years
Total Operating Properties	$ 181,770	$ 360,915	$ 724,894	$ —	$ 112,591	$ 360,915	$ 837,485	$1,198,400	$ 111,949			

NOTES:

(a) Reconciliations of total real estate carrying value and accumulated depreciation for the years ended December 31, 2015 and 2014, and the period from February 7, 2013 (date of inception) to December 31, 2013 are as follows:

	Real Estate 2015	Real Estate 2014	Real Estate 2013	Accumulated Depreciation 2015	Accumulated Depreciation 2014	Accumulated Depreciation 2013
			(in thousands)			
Balance at beginning of period	$1,143,518	$1,104,463	$ —	$ 66,228	$17,281	$ —
Additions during the period:						
Acquisitions	—	—	1,086,950	—	—	—
Improvements and other capitalized costs	54,882	39,055	17,513	—	—	—
Depreciation expense	—	—	—	45,710	48,926	17,248
	1,198,400	1,143,518	1,104,463	111,938	66,207	17,248
Deductions and other during the period	—	—	—	11	21	33
Balance at end of period	$1,198,400	$1,143,518	$1,104,463	$111,949	$66,228	$17,281

(b) The aggregate cost for federal income tax purposes was approximately $1.2 billion (unaudited) at December 31, 2015.

(c) Buildings and improvements are depreciated over 30 to 42 years. Leasehold improvements and other capitalized leasing costs are depreciated over the life of the asset or the term of the lease, whichever is shorter.

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Section 7: EX-99.4 (UNAUDITED COMBINED FINANCIAL STATEMENTS)

Exhibit 99.4

COUSINS HOUSTON
COMBINED BALANCE SHEETS
(In thousands)
(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Operating Properties, net of accumulated depreciation of $147,770 and $111,949 in 2016 and 2015 respectively	$ 1,080,899	$ 1,086,451
Cash and cash equivalents	59	109
Deferred rents receivable	28,002	22,798
Accounts receivable, net of allowance for doubtful accounts of $304 and $254 in 2016 and 2015, respectively	3,645	4,549

Intangible assets, net of accumulated amortization of $72,683 and $61,567 in 2016 and 2015, respectively	61,050	72,166
Other assets	2,469	2,163
TOTAL ASSETS	$ 1,176,124	$ 1,188,236
LIABILITIES AND EQUITY		
LIABILITIES		
Note payable	$ 178,471	$ 180,937
Accounts payable and other liabilities	35,827	47,126
Intangible liabilities, net of accumulated amortization of $24,706 and $20,107 in 2016 and 2015, respectively	36,490	41,089
Other liabilities	2,500	2,212
Total liabilities	253,288	271,364
Commitments and contingencies		
EQUITY	922,836	916,872
TOTAL LIABILITIES AND EQUITY	$ 1,176,124	$ 1,188,236

See notes to combined financial statements.

COUSINS HOUSTON
COMBINED STATEMENTS OF OPERATIONS
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rental property revenues	$ 46,192	$ 45,254	$133,888	$133,848
Other	—	176	288	263
	46,192	45,430	134,176	134,111
Costs and Expenses:				
Rental property operating expenses	19,758	19,194	56,958	57,236
General and administrative expenses	1,688	1,119	6,665	4,545
Depreciation and amortization	15,221	15,348	46,389	48,442
Interest expense	1,956	1,993	5,896	6,004
Transaction costs	494	—	494	—
	39,117	37,654	116,402	116,227
Net Income	$ 7,075	$ 7,776	$ 17,774	$ 17,884

See notes to combined financial statements.

COUSINS HOUSTON
COMBINED STATEMENTS OF EQUITY
For the Nine Months Ended September 30, 2016 and 2015
(unaudited, in thousands)

Balance at December 31, 2014	$909,797
Distributions to Cousins, net	(1,904)
Net income	17,884
Balance at September 30, 2015	$925,777
Balance at December 31, 2015	$916,872
Distributions to Cousins, net	(11,810)
Net income	17,774
Balance at September 30, 2016	$922,836

See notes to combined financial statements.

COUSINS HOUSTON
COMBINED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	**2015**
Net income	$ 17,774	$ 17,884
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	46,389	48,442
Amortization of loan closing costs	133	134
Effect of certain non-cash adjustments to rental revenues	(9,204)	(11,587)
Bad debt expense	111	314
Changes in operating assets and liabilities:		
Accounts receivable and assets, net	436	(2,468)
Operating liabilities	(12,038)	(6,160)
Net cash provided by operating activities	43,601	46,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Property improvements and tenant asset expenditures	(29,242)	(42,506)
Net cash used in investing activities	(29,242)	(42,506)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Cousins’ investment, net	(11,810)	(1,904)
Repayment of note payable	(2,599)	(2,491)
Net cash used in financing activities	(14,409)	(4,395)
NET DECREASE IN CASH	(50)	(342)
CASH AT BEGINNING OF PERIOD	109	684
CASH AT END OF PERIOD	$ 59	$ 342
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 5,771	$ 5,879
Tenant related deferred income	511	362
Change in accrued property and tenant asset expenditures	(1,538)	1,334

See notes to combined financial statements.

Note 1—Organization And Basis Of Presentation

Merger and Spin-Off

On October 6, 2016, Cousins Properties Incorporated ("Cousins") and Parkway Properties, Inc. ("Legacy Parkway") completed a stock-for-stock merger (the "Merger"), followed on October 7, 2016 by a spin-off (the "Spin-Off") of the combined Houston-based assets of both companies (the "Houston Business") into a new publicly traded real estate investment trust, Parkway, Inc. (the "Company").

Basis of Presentation

The combined financial statements included herein represent the combined accounts and combined operations of the portion of the Houston Business owned and operated by Cousins ("Cousins Houston"). Cousins Houston includes the combined accounts related to the office properties of Greenway Plaza and Post Oak Central, operated prior to the Merger and the Spin-Off through subsidiaries of Cousins as of and for the three months ended September 30, 2016, and certain corporate costs. The assets and liabilities in these combined financial statements represent historical carrying amounts of the following properties:

	Acquisition Date	Number of Office Buildings	Total Square Feet
Post Oak Central	February 7, 2013	3	1,280,000
Greenway Plaza	September 9, 2013	10	4,348,000
		13	5,628,000

Cousins Houston is a predecessor, as defined in applicable rules and regulations of the Securities and Exchange Commission (the "SEC"), to the Company which commenced operations upon completion of the Spin-Off.

The combined financial statements are unaudited and were prepared by Cousins Houston in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the rules and regulations of the SEC. In the opinion of management, these financial statements reflect all adjustments necessary (which adjustments are of a normal and recurring nature) for the fair presentation of Cousins Houston's financial position as of September 30, 2016 and the results of operations for the three and nine months ended September 30, 2016 and 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results expected for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These combined financial statements should be read in conjunction with the consolidated financial statements and the notes thereto as of December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014 and for the period from February 7, 2013 (date of inception) to December 31, 2013 included in the Company's Information Statement dated September 27, 2016. The accounting policies employed are substantially the same as those shown in Note 2 to those financial statements.

For the periods presented, there were no items of other comprehensive income. Therefore, no presentation of comprehensive income is required.

Allocated Costs

The historical financial results for Cousins Houston include certain allocated corporate costs which Cousins Houston believes are reasonable. These costs were incurred by Cousins and estimated to be applicable to Cousins Houston based on proportionate leasable square footage. Such costs do not necessarily reflect what the actual costs would have been if Cousins Houston were operating as an independent, stand-alone public company. Additionally, the historical results for Cousins Houston include transaction costs that were incurred by Cousins related to the Spin-Off. These costs are discussed further in Note 3—Related Party Transactions.

Recently Issued Accounting Standards

In 2015, the Financial Accounting Standards Board (the "FASB") voted to defer ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the new guidance, companies will recognize revenue when the seller satisfies a performance obligation, which would be when the buyer takes control of the good or service. This new guidance could result in different amounts of revenue being recognized and could result in revenue being recognized in different reporting periods than under the current guidance. The standard specifically excludes revenue associated with lease contracts. The guidance is effective for periods beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016. Management is currently assessing the potential impact of adopting the new guidance.

In February 2016, the FASB issued ASU 2016-02, "Leases," which amends the existing standards for lease accounting by requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting and reporting. The new standard will require lessees to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, and classify such leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method (finance leases) or on a straight-line basis over the term of the lease (operating leases). Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes previous leasing standards. The guidance is effective for the fiscal years beginning after December 15, 2018 with early adoption permitted. Management is currently assessing the potential impact of adopting the new guidance.

Note 2—Significant Accounting Policies

Real Estate Assets

Cost Capitalization

Cousins Houston capitalizes costs related to property and tenant improvements, including allocated costs of Cousins' personnel working directly on projects. Cousins Houston capitalizes direct leasing costs related to leases that are probable of being executed. These costs include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement, and costs incurred by personnel of Cousins that are based on time spent on successful leases. Cousins Houston allocates these costs to individual tenant leases and amortizes them over the related lease term.

Impairment

For real estate assets that are considered to be held for sale according to accounting guidance, Cousins Houston records impairment losses if the fair value of the asset net of estimated selling costs is less than the carrying amount. For those long-lived assets that are held and used according to accounting guidance, management reviews each asset for the existence of any indicators of impairment. If indicators of impairment are present, Cousins Houston calculates the expected undiscounted future cash flows to be derived from such assets. If the undiscounted cash flows are less than the carrying amount of the asset, Cousins Houston reduces the asset to its fair value.

Acquisition of Operating Properties

Cousins Houston records the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions at fair value at the acquisition date. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land, buildings and improvements, and identified tangible and intangible assets and liabilities associated with in-place leases, including leasing costs, value of above-market and below-market tenant leases, value of above-market and below-market ground leases, acquired in-place lease values, and tenant relationships, if any.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements, and leasing costs are based upon current market replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management’s estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. The amounts recorded for above-market and below-market leases are included in intangible assets and intangible liabilities, respectively, and are amortized on a straight-line basis into rental property operating revenues over the remaining terms of the applicable leases.

The fair value of acquired in-place leases is derived based on management’s assessment of lost revenue and costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. The amount recorded for acquired in-place leases is included in intangible assets and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases.

Depreciation and Amortization

Real estate assets are stated at depreciated cost less impairment losses, if any. Buildings are depreciated over their estimated useful lives, which range from 30 to 42 years. The life of a particular building depends upon a number of factors including whether the building was developed or acquired and the condition of the building upon acquisition. Furniture, fixtures and equipment are depreciated over their estimated useful lives of five years. Tenant improvements, leasing costs and leasehold improvements are amortized over the term of the applicable leases or the estimated useful life of the assets, whichever is shorter. Cousins Houston accelerates the depreciation of tenant assets if it estimates that the lease term will end prior to the termination date. This acceleration may occur if a tenant files for bankruptcy, vacates its premises or defaults in another manner on its lease. Deferred expenses are amortized over the period of estimated benefit. Cousins Houston uses the straight-line method for all depreciation and amortization.

Revenue Recognition

Cousins Houston recognizes contractual revenues from leases on a straight-line basis over the term of the respective lease. In addition, leases typically provide for reimbursement of the tenants’ share of real estate taxes, insurance, and other operating expenses to Cousins Houston. Operating expense reimbursements are recognized as the related expenses are incurred. For the three months ended September 30, 2016 and 2015, Cousins Houston recognized $16.8 million and $15.8 million, respectively, in revenues from tenants for reimbursements of operating expenses, and recognized $46.6 million and $45.0 million in the nine months ended September 30, 2016 and 2015, respectively.

Cousins Houston makes valuation adjustments to all tenant-related accounts receivable based upon its estimate of the likelihood of collectability. The amount of any valuation adjustment is based on the tenant’s credit and business risk, history of payment, and other factors considered by management.

Income Taxes

Through October 6, 2016, Cousins Houston's properties were owned by Cousins, a Georgia corporation which has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, Cousins is not subject to federal income tax provided it distributes annually its adjusted taxable income, as defined in the Code, to stockholders and meets certain other organizational and operating requirements. Accordingly, the combined financial statements of Cousins Houston do not include a provision for federal income tax.

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Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect Cousins Houston's best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. Cousins Houston has no investments for which fair value is measured on a recurring basis using Level 3 inputs. Note 5 includes fair values of debt measured using Level 2 inputs.

Use of Estimates

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

Note 3—Related Party Transactions

The combined financial statements include direct payroll costs and benefits for on-site personnel employed by Cousins. These costs are reflected in rental property operating expenses on the Combined Statements of Operations. As described in Note 2, also included are costs for certain functions and services performed by Cousins including, but not limited to, corporate level salaries and other related costs, stock compensation, and other general and administrative costs. These costs were allocated to Cousins Houston based on proportionate leasable square footage which management believes is an appropriate estimate of usage. These costs are reflected as general and administrative expenses on the Combined Statements of Operations. As described in Note 1, also included are transaction costs that were incurred by Cousins related to the Spin-Off. The amounts included are based on the estimated direct costs incurred by Cousins. The expenses allocated to Cousins Houston for these services are not necessarily indicative of the expenses that would have been incurred had Cousins Houston been an independent, stand-alone public company that had otherwise managed these functions. A summary of these costs for each of the periods presented is as follows (in thousands):

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Charged to property operating expense:				
Direct payroll charges	$ 1,720	$ 1,665	$ 5,198	$ 5,002
Management fees	492	517	1,487	1,524
Charged to general and administrative expense:				
Office rental expense	85	96	265	248
Payroll and other expenses	1,603	1,023	6,400	4,297
Transaction costs	494	—	494	—

Leasing commissions paid to Cousins' personnel and other leasing costs incurred by Cousins are capitalized and amortized over the respective lease term. Cousins Houston capitalized $757,000 and $552,000, respectively, in commissions and other leasing costs to the properties in the three months ended September 30, 2016 and 2015, respectively, and $1.3 million and $3.2 million in the nine months ended September 30, 2016 and 2015, respectively.

Note 4—Intangible Assets

Intangible assets on the balance sheets at September 30, 2016 and December 31, 2015 included the following (in thousands):

	September 30, 2016	December 31, 2015
In-place leases, net of accumulated amortization of $69,232 and $58,715 in 2016 and 2015, respectively	$ 58,782	$ 69,300
Above-market leases, net of accumulated amortization of $3,451 and $2,852 in 2016 and 2015, respectively	2,268	2,866
	$ 61,050	$ 72,166

Aggregate net amortization expense related to intangible assets and liabilities was $1.9 million and $2.5 million for the three months ended September 30, 2016 and 2015, respectively, and $6.5 million and $9.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Note 5—Note Payable

In September 2013, Cousins Houston entered into a $188.8 million non-recourse mortgage note payable secured by Post Oak Central. The note bears interest at 4.26%, and the maturity date is October 1, 2020. In connection with this note payable, Cousins Houston incurred $1.2 million in loan costs. These costs, net of accumulated amortization of $550,000 and $416,000 at September 30, 2016 and December 31, 2015, respectively, are reflected as a reduction of the loan balance on the accompanying balance sheets.

Fair value of debt is calculated by discounting the debt's remaining contractual cash flows at estimated rates at which similar loans could have been obtained. The estimate of the current market rate is intended to replicate debt of similar maturity and loan-to-value relationship. These fair value calculations are considered to be Level 2 under the guidelines set forth in ASC 820, as Cousins Houston utilizes market rates for similar type loans from third party brokers. At September 30, 2016 and 2015, the fair value of this financial instrument and the related discount rate assumptions are summarized as follows (dollars in thousands):

	September 30, 2016	December 31, 2015
Carrying value	$ 178,471	$ 180,937
Fair value	185,800	186,449
Discount rate assumed in calculating fair value	3.25%	3.65%

Note 6—Commitments And Contingencies

Commitments

Cousins Houston had a total of $63.5 million in future obligations under leases to fund tenant improvements at September 30, 2016.

Litigation

Cousins Houston is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. Cousins Houston records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, Cousins Houston accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, Cousins Houston accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, Cousins Houston discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, Cousins Houston discloses the nature and estimate of the possible loss of the litigation. Cousins Houston does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote or where the estimated loss would not be material. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of Cousins Houston.

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Section 8: EX-99.5 (UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS)

Exhibit 99.5

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

As of and for the Nine Months Ended September 30, 2016 and for the Year Ended December 31, 2015

On April 28, 2016, Cousins Properties Incorporated (“Cousins”), Parkway Properties, Inc. (“Legacy Parkway”), Parkway Properties LP (“Parkway LP”) and Clinic Sub Inc., a wholly owned subsidiary of Cousins, entered into the Merger Agreement, pursuant to which Legacy Parkway merged with and into Clinic Sub Inc., with Clinic Sub Inc. continuing as the surviving corporation of the Merger and a wholly owned subsidiary of Cousins (the “Merger”). Upon consummation of the Merger, Parkway, Inc. (the “Company” or “Parkway”) was initially a wholly owned subsidiary of Cousins. Immediately after the effective time of the Merger, Parkway’s businesses were separated from the remainder of Cousins’ businesses (the “Separation”) through a series of transactions (the “UPREIT Reorganization”). On the business day following the closing of the Merger, all of the outstanding shares of the Company’s common stock and limited voting stock were distributed pro rata to the holders of Cousins common stock and Cousins limited voting preferred stock, respectively, including Legacy Parkway common and limited voting stockholders (the “Spin-Off”). The following unaudited pro forma combined financial statements reflect the distribution ratio of one share of the Company’s common stock for every eight shares of Cousins common stock and one share of the Company’s limited voting stock for every eight shares of Cousins limited voting preferred stock (the “Distribution Ratio”).

The following unaudited pro forma combined financial statements as of and for the nine months ended September 30, 2016 and for the year ended December 31, 2015 have been derived from the historical combined financial statements of the Houston-based business of Cousins (“Cousins Houston”) and the Houston-based business of Legacy Parkway (“Parkway Houston”) filed as Exhibits 99.1, 99.2, 99.3, and 99.4 to the Form 8-K/A of which this is filed as an exhibit and the unaudited consolidated financial statements of the Company filed in its Quarterly Report on Form 10-Q on November 14, 2016.

The following unaudited pro forma combined financial statements give effect to the following:

- the Merger, the Separation, the UPREIT Reorganization, the Spin-Off and the Distribution Ratio;
- the Company’s post-Separation capital structure which includes proceeds from the $350.0 million Term Loan, $150.0 million of which Parkway Operating Partnership LP, the Company’s operating partnership (the “Operating Partnership”) will retain; and
- the contribution by Cousins Properties LP (“Cousins LP”) of $5 million to the Company in exchange for shares of the Company’s non-voting preferred stock, par value $0.001 per share.

The unaudited pro forma combined balance sheet assumes the Separation and the related transactions occurred on September 30, 2016. The unaudited pro forma combined statements of operations presented for the nine months ended September 30, 2016, and for the year ended December 31, 2015, assume the Separation and the related transactions occurred on January 1, 2015. The pro forma adjustments are based on currently available information and assumptions Parkway believes are reasonable, factually supportable, directly attributable to the Separation, the Spin-Off, and for purposes of the statements of operations, are expected to have a continuing impact on the Company’s business. The Company’s unaudited pro forma combined financial statements and explanatory notes present how the Company’s financial statements may have appeared had the Company completed the above transactions as of the dates noted above.

The Merger will be accounted for as a “purchase,” as that term is used under GAAP, for accounting and financial reporting purposes. Under purchase accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Legacy Parkway as of the effective time of the Merger will be recorded at their respective fair values and added to the assets and liabilities of Cousins. Any excess of purchase price over the fair values is recorded by Cousins as goodwill. The separation of the assets and liabilities related to the Company’s businesses from the remainder of Cousins’ businesses in the Separation and the UPREIT Reorganization will be at Cousins’ carryover basis after adjusting the Parkway Houston assets and liabilities to fair value. As a result, the Company’s future financial statements will initially reflect carryover basis for Cousins Houston and fair value basis for Parkway Houston.

The following unaudited pro forma combined financial statements were prepared in accordance with Article 11 of Regulation S-X, using the assumptions set forth in the notes to the unaudited pro forma combined financial statements. The unaudited pro forma combined financial statements are presented for illustrative purposes only and do not purport to reflect the results the Company may achieve in future periods or the historical results that would have been obtained had the above transactions been completed on January 1, 2015 or as of September 30, 2016, as the case may be. The unaudited pro forma combined financial statements also do not give effect to the potential impact of current financial conditions, any anticipated synergies, operating efficiencies or cost savings that may result from the transactions described above.

The unaudited pro forma combined financial statements do not indicate results expected for any future period. The unaudited pro forma combined financial statements are derived from and should be read in conjunction with the historical combined financial statements and accompanying notes of Parkway Houston and Cousins Houston appearing elsewhere in the Form 8-K/A of which this is filed as an exhibit.

PARKWAY, INC.
UNAUDITED PRO FORMA COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2016
(in thousands, except share data)
(Unaudited)

	Parkway, Inc	Cousins Houston Historical (1)	Parkway Houston Historical	Adjustments		Total
Assets						
Real estate related investments:						
Office properties, net	$ —	$ 1,080,899	$ 745,632	$ (175,791)	A	$1,650,740
Cash and cash equivalents	5	59	11,792	185,485	B	197,341
Receivables and other assets	375	34,116	79,667	(51,425)	C	62,733
Intangible assets, net	—	61,050	17,872	53,387	A	132,309
Total assets	$ 380	$ 1,176,124	$ 854,963	$ 11,656		$2,043,123
Liabilities						
Mortgage notes payable, net	$ —	$ 178,471	$ 276,744	$ 1,454	D	$ 456,669
Notes payable to banks, net	—	—	—	346,675	B	346,675
Accounts payable and other liabilities	1,370	38,327	30,128	—		69,825
Below market leases, net	—	36,490	18,264	(14,453)	A	40,301
Total liabilities	1,370	253,288	325,136	333,676		913,470
Equity						
Stockholders' equity:						
Common stock $0.001 par value, 49,110,645 shares pro forma	—	—	—	49	E	49
Limited voting stock $0.001 par value, 858,417 shares pro forma	—	—	—	1	E	1
Non-voting preferred stock, $100,000 liquidation preference, 50 shares pro forma	—	—	—	5,000	F	5,000
Cousins Houston	—	922,836	—	(922,836)	G	—
Parkway Houston	—	—	529,827	(529,827)	G	—
Additional paid-in capital	4,382	—	—	1,104,549	G	1,108,931
Accumulated deficit	(5,372)	—	—	—		(5,372)
Total stockholders' equity	(990)	922,836	529,827	(343,064)		1,108,609
Noncontrolling interests	—	—	—	21,044	H	21,044
Total equity	(990)	922,836	529,827	(322,020)		1,129,653
Total liabilities and equity	$ 380	$ 1,176,124	$ 854,963	$ 11,656		$2,043,123

(1) Certain of Cousins Houston Historical balances have been reclassified to conform with Parkway Houston Historical balances.

See notes to unaudited pro forma combined financial statements

PARKWAY, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(In thousands, except per share data)
(Unaudited)

	Parkway Inc.	Cousins Houston Historical (1)	Parkway Houston Historical	Adjustments		Total
Revenues						
Income from office properties	$ —	$ 133,888	$ 82,275	$ 242	a	$216,405
Management company income	—	—	3,753	—		3,753
Total revenues	—	133,888	86,028	242		220,158
Expenses						
Property operating expenses	—	56,958	39,127	—		96,085
Management company expenses	—	—	2,912	—		2,912
Depreciation and amortization	—	46,389	30,314	(8,163)	b	68,540
General and administrative	5,372	6,665	4,787	—	c	16,824
Transaction costs	—	494	—	(494)	d	—
Total expenses	5,372	110,506	77,140	(8,657)		184,361
Operating income (loss)	(5,372)	23,382	8,888	8,899		35,797
Other income and expenses						
Interest and other income	—	288	192	(192)	e	288
Gain on extinguishment of debt	—	—	154	(154)	f	—
Interest expense	—	(5,896)	(9,854)	(8,942)	g	(24,692)
Income (loss) before income taxes	(5,372)	17,774	(620)	(389)		11,393
Income tax expense	—	—	(1,113)	—		(1,113)
Net income (loss)	(5,372)	17,774	(1,733)	(389)		10,280
Net income attributable to noncontrolling interests	—	—	—	(203)	h	(203)
Net income (loss) attributable to controlling interests	(5,372)	17,774	(1,733)	(592)		10,077
Dividends on preferred stock	—	—	—	(300)	i	(300)
Net income (loss) attributable to common stockholders	$ (5,372)	$ 17,774	$ (1,733)	$ (892)		$ 9,777
Weighted average shares outstanding—basic					j	49,111
Weighted average shares outstanding—diluted					j	50,137
Basic and diluted earnings per share						$ 0.20

(1) Certain of Cousins Houston Historical balances have been reclassified to conform with Parkway Houston Historical balances.

See notes to unaudited pro forma combined financial statements

PARKWAY, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands, except per share data)
(Unaudited)

	Parkway, Inc.	Cousins Houston Historical (1)	Parkway Houston Historical	Adjustments		Total
Revenues						
Income from office properties	$ —	$ 177,890	$ 108,507	$ (9,536)	a	$276,861
Management company income	—	—	9,891	—		9,891
Sale of condominium units	—	—	11,063	—		11,063
Total revenues	—	177,890	129,461	(9,536)		297,815
Expenses						
Property operating expenses	—	74,162	45,385	—		119,547
Management company expenses	—	—	9,362	—		9,362
Cost of sales - condominium units	—	—	11,120	—		11,120
Depreciation and amortization	—	63,791	55,570	(26,287)	b	93,074
General and administrative	—	6,328	6,336	—	c	12,664
Total expenses	—	144,281	127,773	(26,287)		245,767
Operating income		33,609	1,688	16,751		52,048
Other income and expenses						
Interest and other income	—	—	246	(246)	e	0
Interest expense	—	(7,988)	(16,088)	(7,785)	g	(31,861)
Income (loss) before income taxes	—	25,621	(14,154)	8,720		20,187
Income tax expense	—	—	(1,635)	—		(1,635)
Net income (loss)	—	25,621	(15,789)	8,720		18,552
Net (income) loss attributable to noncontrolling interests	—	—	7	(351)	h	(344)
Net income (loss) attributable to controlling interests	—	25,621	(15,782)	8,369		18,208
Dividends on preferred stock	—	—	—	(400)	i	(400)
Net income (loss) attributable to common stockholders	$ —	$ 25,621	$ (15,782)	$ 7,969		$ 17,808
Weighted average shares outstanding—basic					j	49,111
Weighted average shares outstanding—diluted					j	50,137
Basic and diluted earnings per share						$ 0.36

(1) Certain of Cousins Houston Historical balances have been reclassified to conform with Parkway Houston Historical balances.

See notes to unaudited pro forma combined financial statements

Adjustments to the Unaudited Pro Forma Combined Balance Sheet

The unaudited pro forma combined balance sheet as of September 30, 2016 reflects the following adjustments:

A. Office properties, net, intangible assets, net, and below market leases, net

The preliminary fair market value is based on a valuation prepared by Cousins with the assistance of a third-party valuation advisor. The Merger adjustments reflected in the unaudited pro forma combined balance sheet for net office properties, net intangible assets and net below market leases represent the differences between the fair market value of Parkway Houston acquired in connection with the Merger and Legacy Parkway's historical balances for Parkway Houston, which are presented as follows (in thousands):

	As of September 30, 2016		
	Parkway Houston Historical	Fair Market Value of Parkway Houston	Adjustments as a Result of Merger
Office properties, net	$ 745,632	$ 569,841	$ (175,791)
Intangible assets, net	17,872	71,259	53,387
Below market leases, net	(18,264)	(3,811)	14,453

Fair value is based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates as appropriate. The fair value of land included in office properties, net, is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and tenant improvements, included in office properties, net, are based upon current market replacement costs and other relevant market rate information. The fair value of the below market leases, net of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. The fair value of acquired in-place leases, included in intangibles, net, is derived based on assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. The fair value of management contracts, included in intangibles, net represents the present value of the after-tax cash flows from property management fees.

B. Cash and cash equivalents and notes payable to banks, net

In connection with the Merger and the Spin-Off, the "Operating Partnership, as borrower, entered into a senior secured term loan facility in an aggregate principal amount of up to $350 million (the "Term Loan") and a senior unsecured revolving credit facility in an aggregate principal amount of $100 million (the "Revolving Credit Facility," and together with the Term Loan, the "Credit Facilities") by and among Wells Fargo Bank, National Association, Bank of America, N.A. and JPMorgan Chase Bank, N.A. Per the terms of the credit agreement, the Credit Facilities have a term of three years. Following the effective time of the Merger, but prior to the Spin-Off, the Term Loan was funded. In the UPREIT Reorganization, the proceeds of the Term Loan were used to fund a $200 million distribution to the partners of the Operating Partnership, who in turn caused such funds to be contributed to Cousins LP, which used the funds to repay a portion of approximately $550 million outstanding under Legacy Parkway's credit facilities. The remaining $150 million of proceeds from the Term Loan was retained by the Operating Partnership under the Credit Facilities following consummation of the Spin-Off. These remaining proceeds from the Term Loan and future proceeds from the Revolving Credit Facility will be used for general corporate purposes of the Company. Additionally, in the UPREIT Reorganization, Cousins LP contributed $5 million to the Company in exchange for shares of non-voting preferred stock with a liquidation preference of $5 million, a cumulative dividend of 8.00% per annum per share and limited voting rights as set forth in the Company's articles of amendment and restatement.

Additionally, the adjustment to cash and cash equivalents includes approximately $42.4 million of cash that was retained by the Company pursuant to the terms of the Separation and Distribution Agreement.

The adjustment to notes payable to banks, net in the unaudited pro forma combined balance sheet comprises the following as of September 30, 2016 (in thousands):

	As of September 30, 2016
Term Loan	$ 350,000
Credit Facilities deferred financing costs	(3,325)
Total	$ 346,675

C. Receivables and other assets

The adjustment to receivables and other assets in the unaudited pro forma combined balance sheet comprises the following as of September 30, 2016 (in thousands):

	Parkway Houston Historical	Fair Market Value of Parkway Houston	Adjustments as a Result of Merger
Straight-line rent	$ 25,071	$ —	$ (25,071)
Lease commissions, net	42,450	19,596	(22,854)
Investment in ACP Peachtree	3,500	—	(3,500)
			$ (51,425)

The straight-lining of rents pursuant to the underlying leases associated with the real estate acquired in connection with the Separation will commence at the effective time of the Separation; therefore, the balance of deferred rent of $25.1 million included on Parkway Houston's historical balance sheet has been eliminated.

Lease commissions, net will be adjusted to reflect the fair market value for Parkway Houston. The fair value of leasing commissions is based upon current market replacement costs and other relevant market information.

The investment in ACP Peachtree Center Manager, LLC, which is included in Parkway Houston's historical financial statements, was retained by Cousins in connection with the Merger and Separation, therefore the balance of $3.5 million included on Legacy Parkway's historical balance sheet has been eliminated.

D. Mortgage notes payable, net

Represents the adjustment to reflect the premium on mortgage notes payable, net to fair value as of September 30, 2016 (in thousands):

	Parkway Houston Historical	Fair Market Value of Parkway Houston Assumed Debt	Adjustment as a Result of Merger
Premium on mortgage notes payable, net	$ (4,295)	$ (2,841)	$ 1,454

The fair values of mortgage notes payable, net assumed in connection with the Merger were based on discounted cash flow analysis using the current market borrowing rates for similar types of borrowing arrangements as of the measurement dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

E. Common stock and limited voting stock

Represents the issuance of one share of Parkway common stock or Parkway limited voting stock for every eight shares of Cousins common stock or Cousins limited voting preferred stock, respectively, on the business day following the effective time of the Merger, pursuant to which each Legacy Parkway common stockholder received 1.63 newly issued shares of Cousins common stock or Cousins limited voting preferred stock for each share of Legacy Parkway common stock or Legacy Parkway limited voting stock, respectively (in thousands, except per share data and exchange ratio):

	As of September 30, 2016
Outstanding shares of Legacy Parkway common stock-historical basis	111,768
Legacy Parkway equity-based awards converted in Legacy Parkway common stock	698
Outstanding shares of Legacy Parkway common stock	112,466
Exchange Ratio	1.63
Shares of Cousins common stock to be issued-pro forma basis	183,320
Outstanding shares of Cousins common stock-historical basis	210,170
Total shares issued in the Merger	393,490
Distribution Ratio of 8:1	8
	49,186
Less: fractional shares	(75)
Shares of Parkway common stock to be issued-pro forma basis	49,111
Parkway common stock par value per share	$ 0.001
Pro forma adjustment to Parkway common stock	$ 49

	As of September 30, 2016
Outstanding shares of Legacy Parkway limited voting stock-historical basis	4,213
Exchange Ratio	1.63
Total shares issued in the Merger	6,867
Distribution Ratio of 8:1	8
Shares of Parkway limited voting stock to be issued-pro forma basis	858
Parkway limited voting stock par value per share	$ 0.001
Pro forma adjustment to Parkway limited voting stock	$ 1

F. Non-Voting Preferred Stock

Represents the non-voting preferred stock acquired by Cousins LP in exchange for a $5 million contribution by Cousins LP to Parkway in connection with the Separation, the UPREIT Reorganization and the Spin-Off. The issuance of the $5 million of non-voting preferred stock was negotiated between the parties to satisfy the parties' overall business and economic objectives, including the intended tax treatment of the Spin-Off. The non-voting preferred stock pays a dividend of 8.00% per annum.

G. Cousins Houston, Parkway Houston and additional paid-in capital

The following table represents the pro forma adjustments to eliminate the equity for Cousins Houston and Parkway Houston and reflects the net equity of the Houston Business in the Spin-Off (in thousands):

	As of September 30, 2016
Cousins Houston	$ 922,836
Parkway Houston	529,827
Net equity value of Houston Business distributed in Spin-Off	(348,114)
Pro forma adjustment	$ 1,104,549
The net equity value of the Houston Business distributed in the distribution is as follows (in thousands):	
Adjustment to Office properties, net for Parkway Houston to fair value as discussed in Note A	$ (175,791)
Adjustment to Cash and cash equivalents for Parkway Houston as discussed in Note B	185,485
Adjustment to Receivables and other assets for Parkway Houston to fair value as discussed in Note C	(51,425)
Adjustment to Intangible assets, net for Parkway Houston to fair value as discussed in Note A	53,387
Adjustment to Mortgage notes payable, net for Parkway Houston to fair value as discussed in Note D	(1,454)
Adjustment to Notes payable to banks, net for Parkway Houston to fair value as discussed in Note B	(346,675)
Adjustment to Below market leases, net for Parkway Houston to fair value as discussed in Note A	14,453
Adjustment to Common stock as discussed in Note E	(49)
Adjustment to Limited voting stock as discussed in Note E	(1)
Adjustment to Preferred stock as discussed in Note F	(5,000)
Adjustment to Noncontrolling interests as discussed in Note H	(21,044)
Total	$ (348,114)

H. Noncontrolling interests

Pro forma adjustment represents the post-Separation noncontrolling interest estimated using the expected noncontrolling interest of 2% of total estimated units applied to the pro forma total net equity value of Parkway.

Adjustments to the Unaudited Pro Forma Combined Statements of Operations

a. Income from office properties

Represents the elimination of historical straight-line rents and historical amortization of above- and below-market rent associated with the leases of Parkway Houston, which will be eliminated after the Merger and the amount of above- and below-market rents associated with Parkway Houston based on fair value in the Merger. The entire lease term was used to calculate the pro forma adjustments for straight-line rent and amortization of above- and below-market rent. No early termination options in leases were accounted for in the lease term because leases including such options contain penalties substantial enough that the continuation of such leases appears, at inception, to be reasonably assured.

The following table summarizes the adjustments made to income from office properties for Parkway Houston's properties for the nine months ended September 30, 2016 and the year ended December 31, 2015 (in thousands):

	Nine Months Ended September 30, 2016
Pro forma Parkway Houston straight-line rent adjustment	$ 4,974
Pro forma (above)/below market rent adjustment	215
Historical Parkway Houston amounts	(4,947)
Pro forma adjustment	$ 242

	Year Ended December 31, 2015
Pro forma Parkway Houston straight-line rent adjustment	$ 18,991
Pro forma (above)/below market rent adjustment	2,546
Historical Parkway Houston amounts	(31,073)
Pro forma adjustment	$ (9,536)

b. Depreciation and amortization

The following tables summarize the adjustments made to depreciation and amortization for Parkway Houston's properties based on fair values in the Merger for the nine months ended September 30, 2016 and the year ended December 31, 2015:

	Nine Months Ended September 30, 2016
Parkway Houston building and site improvements	$ 8,918
Parkway Houston in-place leases	13,286
Parkway Houston management contract	(53)
Parkway Houston historical depreciation and amortization	(30,314)
Pro forma adjustment	$ (8,163)

	Year Ended December 31, 2015
Parkway Houston building and site improvements	$ 11,891
Parkway Houston in-place leases	17,715
Parkway Houston management contract	(323)
Parkway Houston historical depreciation and amortization	(55,570)
Pro forma adjustment	$ (26,287)

c. General and administrative expenses

Management initially expects annual general and administrative expenses to be in the range of $14.0 million to $16.0 million without consideration for share-based compensation expenses for Parkway.

This estimate is based on anticipated: (i) corporate-level salaries, excluding any changes in base salaries pursuant to the employment agreements entered into between the Company and certain executives on December 12, 2016, (ii) benefits, (iii) director fees, (iv) rent and related expenses, (v) professional fees and (vi) costs to operate as a public company.

d. Transaction costs

Represents the elimination of the transaction costs that were incurred by Cousins Houston related to the Spin-Off.

e. Interest and other income

Represents the elimination of the interest income related to Legacy Parkway's investment in ACP Peachtree Center Manager, LLC.

f. Gain on extinguishment of debt

Represents the elimination of gain on extinguishment of debt related to the payoff in full of the $114.0 million mortgage debt secured by CityWestPlace I & II.

g. Interest expense

Represents the pro forma interest expense and pro forma amortization of deferred financing costs related to the Credit Facilities and pro forma amortization of above-market debt values created by marking the assumed debt of the Parkway Houston properties to fair market value. Upon completion of the Separation, the UPREIT Reorganization and the Spin-Off, the Company's properties are subject to the existing secured, property-level indebtedness, equal to $451.2 million as of September 30, 2016.

The following tables summarize the adjustments to the unaudited pro forma combined statements of operations to reflect the Credit Facilities activity and amortization of Parkway Houston properties' above-market debt and the elimination of the historical interest expense on the CityWestPlace I & II debt (in thousands):

	Nine Months Ended September 30, 2016
Pro forma interest on Credit Facilities	$ 9,077
Pro forma amortization of deferred financing costs	831
Pro forma amortization of above market debt	(622)
Historical Parkway Houston amortization of above market debt	1,530
Historical interest on CityWestPlace I & II	(1,874)
Pro forma adjustment	$ 8,942

	Year Ended December 31, 2015
Pro forma interest on Credit Facilities	$ 11,160
Pro forma amortization of deferred financing costs	1,108
Pro forma amortization of above market debt	(1,282)
Historical Parkway Houston amortization of above market debt	3,991
Historical interest on CityWestPlace I & II	(7,192)
Pro forma adjustment	$ 7,785

The Term Loan bears interest at LIBOR plus a spread that ranges from 2.50% to 3.50% per annum (the “Margin”) based on the ratio of total indebtedness to total asset value. Based upon management’s expectation of the ratio of indebtedness to the Company’s total assets after the Spin-Off, the Term Loan bears interest at LIBOR plus a spread of 3.00% for the purposes of pro forma adjustments. At September 30, 2016 and December 31, 2015, LIBOR was approximately 0.47% and 0.19%, respectively, for a total pro forma borrowing rate of approximately 3.47% and 3.19%, respectively. A 0.125% change in LIBOR would result in a change in pro forma interest expense on the Term Loan of approximately $400,000 per year. A 0.50% change in the Margin would result in a change in pro forma interest expense on the Term Loan of approximately $1.8 million per year.

h. Noncontrolling interest

Represents the adjustment to allocate net income to limited partners of operating partnership units of Parkway LP (“OP units”).

i. Dividends on Non-Voting Preferred Stock

Represents the pro forma dividend on the $5 million non-voting preferred stock, with an 8.00% per annum stated dividend rate.

j. Weighted average shares

The following table summarizes the pro forma weighted average shares of Parkway common stock outstanding as if the Spin-Off occurred on September 30, 2016 (in thousands) (for more information, see note E above):

	As of September 30, 2016
Weighted average shares of common stock-basic	49,111
Effect of conversion and exchange of OP units in Parkway LP	1,026
Weighted average shares of Parkway common stock-diluted	50,137

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