

PS BUSINESS PARKS INC/CA
Form 8-K
November 03, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 2, 2004

PS BUSINESS PARKS, INC.
(Exact name of registrant as specified in its charter)

California
(State or Other Jurisdiction
of Incorporation)

1-10709
(Commission File Number)

95-4300881
(I.R.S. Employer
Identification Number)

701 Western Avenue, Glendale, California 91201-2397

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(818) 244-8080**

N/A

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

- 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))

Item 7.01. Regulation FD Disclosure

On November 2, 2004, the Company reported operating results for the quarter ended September 30, 2004. The information in this Form 8-K (including Exhibit 99.1) shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

The following exhibit relating to Item 7.01 shall be deemed to be furnished, and not filed:

99.1 Press release dated November 2, 2004.

Item 9.01. Financial Statements and Exhibits

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.

PS BUSINESS PARKS, INC.

Date: November 2, 2004

By: /s/ Edward A. Stokx

Edward A. Stokx

Chief Financial Officer

News Release

PS Business Parks, Inc.
701 Western Avenue
Glendale, CA 91201-2349
www.psbusinessparks.com

For Release: Immediately
Date: November 2, 2004
Contact: Mr. Edward A. Stokx
(818)244-8080, Ext. 649

PS Business Parks, Inc. reports results for the third quarter ended September 30, 2004.

Glendale, California PS Business Parks, Inc. (AMEX:PSB), reported operating results for the three and nine months ended September 30, 2004.

Net income allocable to common shareholders for the three months ended September 30, 2004 was \$2.8 million or \$0.13 per diluted share on revenues of \$55.2 million compared to \$7.8 million or \$0.36 per diluted share on revenues of \$48.9 million for the same period in 2003. Net income allocable to common shareholders for the nine months ended September 30, 2004 was \$12.2 million or \$0.56 per diluted share on revenues of \$162.9 million compared to \$26.6 million or \$1.24 per diluted share on revenues of \$144.7 million for the same period in 2003.

Revenues increased \$6.3 million for the three months ended September 30, 2004 over the same period in the prior year as a result of properties acquired during the latter part of 2003, partially offset by a decrease in Same Park revenues of \$1.1 million. Net income allocable to common shareholders decreased over the same period by \$5.0 million or \$0.23 per diluted share partially resulting from distributions of \$2.9 million reported to preferred unit holders related to the redemption of \$120 million of preferred units during the three months ended September 30, 2004. The remaining change is attributable to an increase in depreciation expense of approximately \$3.3 million, or \$0.11 per diluted share, for properties acquired in 2003.

Revenues increased \$18.2 million for the nine months ended September 30, 2004 over the same period in the prior year as a result of properties acquired during the latter part of 2003, partially offset by a decrease in Same Park revenues of \$3.5 million. Net income allocable to common shareholders decreased over the same periods by \$14.4 million or \$0.66 per diluted share. Offsetting the impact of net operating income from acquired properties was additional depreciation, interest costs and preferred distributions related to the acquired assets. In addition, through September 30, 2004 the Company has reported non-cash distributions to its preferred stock and unit holders of \$5.0 million related to the redemption of preferred equity (see discussion below).

Supplemental Measures

Funds from operations (FFO) allocable to common shareholders and unit holders for the third quarter of 2004 and 2003 were \$22.3 million, or \$0.76 per diluted share and \$25.8 million, or \$0.89 per diluted share, respectively. FFO allocable to common shareholders and unit holders for the nine months ended September 30, 2004 was \$71.2 million or \$2.44 per diluted share compared to \$72.0 million or \$2.50 per diluted share for the same period in 2003.

On September 3, 2004 the Company redeemed 3,200,000 units of its 8.75% Cumulative Series C Preferred Operating Partnership Units for \$80 million and on September 7, 2004 the Company redeemed 1,600,000 units of its 8.875% Series X Cumulative Preferred Operating Partnership

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Units for \$40 million. In accordance with the Securities and Exchange Commission's interpretation of Emerging Issues Task Force (EITF) Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," the call for redemption of the Series C and X preferred units resulted in an additional allocation of net income to preferred unit holders for the three months ended September 30, 2004 and a corresponding reduction of net income and FFO allocable to common shareholders of \$2,872,000.

In the fourth quarter of 2003, the Company adopted guidance from the SEC regarding the inclusion of impairment adjustments in the calculation of funds from operations. Accordingly, the Company no longer adds back the effects of impairment losses in determining FFO, resulting in a decrease in FFO of \$5.9 million or \$0.20 per diluted share for the nine months ended September 30, 2003.

The following table summarizes the impact of the implementation of the SEC's clarification of EITF Topic D-42 and the adoption of the SEC's guidance regarding impairment adjustments on the Company's FFO per common shareholders and unit holders for the three and nine months ended September 30, 2004 and 2003:

| | Three Months Ended September 30, | | Nine Mon |
|--|----------------------------------|---------|----------|
| | 2004 | 2003 | 20 |
| FFO per common share before adjustments..... | \$ 0.86 | \$ 0.89 | \$ 2. |
| Application of EITF Topic D-42..... | (0.10) | - | (0. |
| Impairment provision..... | - | - | |
| FFO per common share, as reported..... | \$ 0.76 | \$ 0.89 | \$ 2. |

Property Operations

In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties (13.7 million net rentable square feet, not including assets classified as discontinued operations). These properties (herein referred to as Same Park facilities) have been owned and operated by the Company since January 1, 2003 and exclude assets held for sale and included in discontinued operations. In the first quarter of 2004 the Company reevaluated its plans to sell five office and flex buildings in Beaverton, Oregon. The Company determined that these properties would not likely be sold within the next twelve months. Accordingly, these properties have been included in the Same Park facilities for the three and nine months ended September 30, 2004 and 2003. Same Park facilities represent approximately 74.5% of the Company's total portfolio of 18.4 million square feet as of September 30, 2004.

The following tables summarize the operating results of the Same Park facilities as well as the total portfolio:

Same Park Facilities (13.7 million square feet) (1)

 (in thousands, except per square foot amounts)

| | Three Months Ended September 30, | |
|--|-------------------------------------|------|
| | 2004 | 2003 |
| Rental income before straight-line rent..... | \$ 45,813 | \$ |
| Straight-line rent..... | 412 | |
| Total rental income..... | 46,225 | |
| Cost of operations..... | 12,898 | |
| Net operating income..... | 33,327 | |
| Less: straight-line rent..... | (412) | |
| Net operating income before straight-line rent(1)..... | \$ 32,915 | \$ |
| Gross margin(2)..... | 71.8% | |
| Weighted average for period: | | |

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| | | | |
|---|----|-------|----|
| Occupancy..... | | 90.5% | |
| Annualized realized rent per occupied sq. ft.(3)..... | \$ | 14.75 | \$ |

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------|
| | 2004 | 2003 |
| Rental income before straight-line rent..... | \$ 136,802 | \$ 140,6 |
| Straight-line rent..... | 1,490 | 1,20 |
| Total rental income..... | 138,292 | 141,8 |
| Cost of operations..... | 39,045 | 38,0 |
| Net operating income..... | 99,247 | 103,8 |
| Less: straight-line rent..... | (1,490) | (1,20) |
| Net operating income before straight-line rent(2)..... | \$ 97,757 | \$ 102,6 |
| Gross margin(3)..... | 71.5% | 73.0 |
| Weighted average for period: | | |
| Occupancy..... | 90.4% | 92.9 |
| Annualized realized rent per occupied sq. ft.(4)..... | \$ 14.70 | \$ 14.7 |

- (1) Same park properties' operations have been adjusted to exclude the financial results of t classified as Discontinued Operations.
- (2) Net operating income ("NOI") is an important measurement in the commercial real estate determining the value of the real estate generating the NOI. The key components of NOI a income less cost of operations excluding the effects of straight-line rent and depreciation.
- (3) Gross margin is computed by dividing property net operating income before straight-line income before straight-line rent.
- (4) Realized rent per square foot represents the revenues earned before straight-line ren square foot.

Total Portfolio (18.4 million square feet) (1)

(in thousands, except per square foot amounts)

| | Three Months Ended September 30, | |
|--|-------------------------------------|----|
| | 2004 | 20 |
| Rental income before straight-line rent..... | \$ 54,116 | \$ |
| Straight-line rent..... | 863 | |
| Total rental income..... | 54,979 | |
| Cost of operations..... | 16,342 | |
| Net operating income..... | 38,637 | |
| Less: straight-line rent..... | (863) | |
| Net operating income before straight-line rent(2)..... | \$ 37,774 | \$ |

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| | Nine Months Ended September 30, | |
|--|------------------------------------|------|
| | 2004 | 2003 |
| Gross margin(3)..... | 69.8% | |
| Weighted average for period: | | |
| Square footage (4)..... | 18,408 | |
| Occupancy (4) | 88.7% | |
| Annualized realized rent per occupied sq. ft.(5)..... | \$ 13.26 | \$ |
| Rental income before straight-line rent..... | \$ 160,163 | \$ |
| Straight-line rent..... | 2,242 | |
| Total rental income..... | 162,405 | |
| Cost of operations..... | 48,270 | |
| Net operating income..... | 114,135 | |
| Less: straight-line rent..... | (2,242) | |
| Net operating income before straight-line rent(2)..... | \$ 111,893 | \$ |
| Gross margin(3)..... | 69.9% | |
| Weighted average for period: | | |
| Square footage (4)..... | 18,338 | |
| Occupancy (4)..... | 88.2% | |
| Annualized realized rent per occupied sq. ft.(5)..... | \$ 13.20 | \$ |

- (1) Financial results exclude discontinued operations.
- (2) Net operating income ("NOI") is an important measurement in the commercial real estate determining the value of the real estate generating the NOI. The key components of NOI are income less cost of operations excluding the effects of straight-line rent and depreciation.
- (3) Gross margin is computed by dividing property net operating income before straight-line income before straight-line rent.
- (4) Weighted average square footage and occupancy include all assets owned as of September 30, 2004.
- (5) Realized rent per square foot represents the revenues earned before straight-line rent occupied square foot.

Financial Condition

The following are the Company's key financial ratios with respect to its leverage at and for the three months ended September 30, 2004.

| | |
|---|---------------|
| Ratio of FFO to fixed charges (1)..... | 43.4x |
| Ratio of FFO to fixed charges and preferred distributions excluding the effects of EITF Topic D-42 (1) (2)..... | 2.8x |
| Debt and preferred equity to total market capitalization (based on common stock price of \$39.85 at September 30, 2004) | 36% |
| Available under line of credit at September 30, 2004 (3)..... | \$ 70 million |

- (1) Fixed charges include interest expense of \$513,000.

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- (2) Preferred distributions include amounts paid to preferred shareholders of \$8,121,000 and holders in the operating partnership of \$5,170,000 (excludes \$2,872,000 related to EITF Topic 14C).
- (3) The balance outstanding of the Company's line of credit of \$30 million as of September 30, 2004, was repaid in full as of October 25, 2004.

Issuance of Preferred Stock and Preferred Units

On August 31, 2004, the Company issued 2,300,000 depositary shares each representing 1/1,000 of a share of the Company's 7.60% Cumulative Preferred Stock, Series L, at \$25.00 per share.

Subsequent to September 30, 2004, the Company reopened its 7.00% Series H Preferred shares and issued an additional 1,300,000 depositary shares, each representing 1/1,000 of a share of the 7.00% Cumulative Preferred Stock, Series H, at \$24.0638 per share. Net proceeds from the offering were used to repay in full the balance outstanding on the Company's line of credit.

Property Disposition and Assets Held for Sale

On July 28, 2004 the Company closed on a sale of a 10,000 square foot unit in Miami, Florida with gross proceeds of \$1.2 million. In addition, on September 1, 2004 the Company sold a 30,500 square foot building in Beaverton, Oregon for gross proceeds of \$3.1 million. The Company reported a combined gain of \$313,000 on the sale of those two assets.

During the third quarter of 2004 the Company concluded that it would likely proceed with the sale of certain additional assets. Accordingly, such assets have been classified as assets held for sale and the operations of such assets have been reflected as discontinued operations.

Included in assets held for sale are 11 units, aggregating 90,000 square feet, at Miami International Commerce Center (MICC). These units consist of a series of buildings each comprising two units. In addition the Company has also included a 56,000 square foot retail center within MICC that it intends to proceed with selling. Finally, the Company has included two assets in Prince George's County, Maryland. The two buildings comprise approximately 400,000 square feet with a combined weighted average occupancy rate of 86% for the third quarter of 2004.

Distributions Declared

The Board of Directors declared a quarterly dividend of \$0.29 per common share on November 2, 2004. Distributions were also declared on the various series of depositary shares, each representing 1/1,000 of a share of preferred stock listed below. Distributions are payable December 31, 2004 to shareholders of record on December 15, 2004.

| Series | Dividend Rate | Dividend Declared |
|----------|---------------|-------------------|
| ----- | ----- | ----- |
| Series D | 9.500% | .593750 |
| Series F | 8.750% | .546875 |
| Series H | 7.000% | .437500 |
| Series I | 6.875% | .429688 |
| Series K | 7.950% | .496875 |
| Series L | 7.60% | .638611 (1) |

(1) Series L distribution includes dividends from August 31, 2004 through December 31, 2004.

Company Information

PSB is a self-advised and self-managed equity real estate investment trust that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. The Company defines flex space as buildings that are configured with a combination of office and warehouse space and can be designed to fit a number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space). As of September 30, 2004, PSB wholly-owned approximately 18.4 million net rentable square feet of commercial space with approximately 3,600 customers located in eight states, concentrated primarily in California (5,160,000 sq. ft.), Texas (2,852,000 sq. ft.), Florida (3,342,000 sq. ft.), Oregon (1,939,000 sq. ft.), Virginia (2,786,000 sq. ft.) and Maryland (1,646,000 sq. ft.).

Forward-Looking Statements

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When used within this press release, the words may, believes, anticipates, plans, expects, seeks, estimates, intends and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results and performance of the Company to be materially different from those expressed or implied in the forward-looking statements. Such factors include the impact of competition from new and existing commercial facilities which could impact rents and occupancy levels at the Company's facilities; the Company's ability to evaluate, finance, and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts; the impact of general economic conditions upon rental rates and occupancy levels at the Company's facilities; the availability of permanent capital at attractive rates, the outlook and actions of Rating Agencies and risks detailed from time to time in the Company's SEC reports, including quarterly reports on Form 10-Q, reports on Form 8-K and annual reports on Form 10-K.

Additional information about PS Business Parks, Inc. including more financial analysis of the third quarter's operating results is available on the Internet. The Company's web site is www.psbusinessparks.com.

A conference call is scheduled for November 3, 2004 at 10:00 A.M. (PT) to discuss the third quarter results. The toll free number is 1-800-399-4409; the conference ID is 1132334. The call will also be available via a live webcast on the Company's website. A replay of the conference call will be available through November 10, 2004 at 1-800-642-1687. A replay of the conference call will also be available on the Company's website.

Additional financial data attached.

PS BUSINESS PARKS, INC. SELECTED FINANCIAL DATA

(unaudited, in thousands)

| | At September 30, 2004 | At December 31, 2003 |
|--|-----------------------|----------------------|
| Balance Sheet Data: | | |
| Cash and cash equivalents..... | \$ 3,103 | \$ |
| Properties held for disposition, net..... | \$ 47,038 | \$ |
| Real estate facilities, before accumulated depreciation..... | \$ 1,555,447 | \$ |
| Total assets..... | \$ 1,358,646 | \$ |
| Total debt..... | \$ 49,225 | \$ |
| Minority interest - common units..... | \$ 165,945 | \$ |
| Minority interest - preferred units..... | \$ 127,750 | \$ |
| Perpetual preferred stock..... | \$ 478,350 | \$ |
| Common shareholders' equity..... | \$ 495,704 | \$ |
| Total common shares outstanding at period end... | 21,819 | |
| Total common shares outstanding at period end, assuming conversion of all Operating Partnership units into common stock..... | 29,124 | |

PS BUSINESS PARKS, INC. CONSOLIDATED STATEMENTS OF INCOME (unaudited, in thousands, except per share amounts)

| | For the Three Months Ended | |
|--|----------------------------|--------------------|
| | September 30, 2004 | September 30, 2003 |
| | 2004 | 2003 |

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| | | | | |
|--|----|---------|----|---------|
| Revenues: | | | | |
| Rental income..... | \$ | 54,979 | \$ | 48,719 |
| Facility management fees primarily from affiliates..... | | 200 | | 178 |
| Total revenues..... | | 55,179 | | 48,897 |
| Expenses: | | | | |
| Cost of operations..... | | 16,342 | | 13,403 |
| Depreciation and amortization..... | | 18,310 | | 15,015 |
| General and administrative..... | | 1,155 | | 1,055 |
| Total expenses..... | | 35,807 | | 29,473 |
| Other income and expenses: | | | | |
| Gain on sale of marketable securities..... | | - | | - |
| Interest and other income..... | | 136 | | 145 |
| Interest expense..... | | (513) | | (1,013) |
| Total other income and expenses..... | | (377) | | (868) |
| Income from continuing operation before minority interests and equity income of joint venture..... | | 18,995 | | 18,556 |
| Equity income of liquidated joint venture | | - | | - |
| Minority interests in continuing operations: | | | | |
| Minority interest in income - preferred units | | | | |
| Distributions paid..... | | (5,170) | | (4,810) |
| Redemptions of preferred OP units..... | | (2,872) | | - |
| Minority interest in income - common units... | | (714) | | (2,462) |
| Total minority interests in continuing operations..... | | (8,756) | | (7,272) |
| Income from continuing operations before preferred distributions..... | | 10,239 | | 11,284 |
| Preferred distributions: | | | | |
| Preferred distributions paid..... | | 8,121 | | 4,052 |
| Redemption of preferred stock..... | | - | | - |
| Total preferred distributions..... | | 8,121 | | 4,052 |
| Income from continuing operations allocable to common shareholders | | 2,118 | | 7,232 |
| Discontinued operations: | | | | |
| Income from discontinued operations..... | | 655 | | 737 |
| Impairment charge on properties held for sale.. | | - | | - |
| Gain on disposition of real estate..... | | 313 | | 14 |
| Minority interest in (earnings) loss attributable to discontinued operation - common units..... | | (240) | | (191) |
| Total discontinued operations..... | | 728 | | 560 |
| Net income allocable to common shareholders..... | \$ | 2,846 | \$ | 7,792 |
| Net income per common share - basic: | | | | |
| Continuing operations..... | \$ | 0.10 | \$ | 0.33 |

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| | | | | | |
|---|----|--------|----|--------|----|
| Discontinued operations..... | | 0.03 | | 0.03 | |
| | \$ | 0.13 | \$ | 0.36 | \$ |
| ===== | | | | | |
| Net income per common share - diluted: | | | | | |
| Continuing operations..... | \$ | 0.10 | \$ | 0.33 | \$ |
| Discontinued operations..... | | 0.03 | | 0.03 | |
| ----- | | | | | |
| | \$ | 0.13 | \$ | 0.36 | \$ |
| ===== | | | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic..... | | 21,813 | | 21,417 | |
| ----- | | | | | |
| Diluted..... | | 21,977 | | 21,617 | |
| ===== | | | | | |

PS BUSINESS PARKS, INC.
 Computation of Funds from Operations ("FFO") and Funds Available for Distribution ("FAD")
 (unaudited, in thousands, except per share amounts)

| | For the Three Months Ended | | | |
|---|----------------------------|--------|----|--------|
| | September 30, | | | |
| | 2004 | 2003 | | |
| ----- | | | | |
| Computation of Diluted Funds From Operations | | | | |
| ----- | | | | |
| per Common Share ("FFO") (1): | | | | |
| ----- | | | | |
| Net income allocable to common shareholders..... | \$ | 2,846 | \$ | 7,792 |
| Adjustments: | | | | |
| Gain on disposition of real estate..... | | (313) | | (14) |
| Gain on sale of marketable securities..... | | - | | - |
| Equity income from gain on sale of joint venture properties..... | | - | | - |
| Depreciation and amortization..... | | 18,802 | | 15,382 |
| Minority interest in income - common units.... | | 954 | | 2,653 |
| ----- | | | | |
| FFO allocable to common shareholders/unit holders. | \$ | 22,289 | \$ | 25,813 |
| ===== | | | | |
| Weighted average common shares outstanding..... | | 21,813 | | 21,417 |
| Weighted average common OP units outstanding..... | | 7,305 | | 7,305 |
| Weighted average stock options outstanding using treasury method..... | | 164 | | 200 |
| ----- | | | | |
| Weighted average common shares and OP units for purposes of computing fully-diluted FFO per common share..... | | 29,282 | | 28,922 |
| ===== | | | | |
| Diluted FFO per common share | \$ | 0.76 | \$ | 0.89 |
| ===== | | | | |
| Computation of Funds Available for Distribution ("FAD") (2): | | | | |
| FFO allocable to common shareholders..... | \$ | 22,289 | \$ | 25,813 |
| Adjustments: | | | | |

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| | | | | |
|---|---------|--------|---------|--------|
| Maintenance capital expenditures..... | (3,226) | | (1,614) | |
| Tenant improvements..... | (9,573) | | (2,835) | |
| Lease commissions..... | (1,780) | | (1,420) | |
| Straight-line rent..... | (863) | | (793) | |
| Stock based compensation expense..... | 276 | | 270 | |
| In-place rents adjustment..... | 39 | | - | |
| Impairment charge on properties held for sale | - | | - | |
| Impact of application of EITF Topic D-42..... | 2,872 | | - | |
| FAD..... | \$ | 10,034 | \$ | 19,421 |
| | | | | \$ |
| Distributions to common shareholders and unit holders | \$ | 8,446 | \$ | 8,311 |
| | | | | \$ |
| Distribution payout ratio..... | | 84.2% | | 42.8% |

- (1) Funds from operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization, minority interest and extraordinary items. FFO is presented because the Company considers FFO to be a useful measure of operating performance of a REIT and when compared year over year, reflects the impact of trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into account scheduled principal payments on debt or capital improvements. The Company believes that the presentation of FFO will facilitate a clear understanding of the Company's operating results, FFO should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of performance as it does not reflect depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of the Company's properties. FFO is a significant economic cost and could materially impact the Company's results from operations. FFO is not used by investors to compare our performance with other real estate companies. Other real estate companies may use different methods for calculating FFO and, accordingly, our FFO may not be comparable to the FFO of other real estate companies.
- (2) Funds available for distribution ("FAD") is computed by deducting from consolidated FFO the following expenditures, which the Company defines as those costs incurred to maintain the asset base: depreciation, amortization, capitalized leasing commissions, and straight-line rent from FFO and adding back stock based compensation expense. Like FFO, the Company considers FAD to be a useful measure of operating performance and cash flows of a REIT. FAD does not represent net income or cash flow from operations as defined by GAAP.