

PS BUSINESS PARKS INC/CA  
Form 8-K  
August 01, 2006

**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) July 31, 2006

**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))

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**Item 2.02. Results of Operations and Financial Condition and Exhibits**

On July 31, 2006 PS Business Parks, Inc. announced its financial results for the second quarter ended June 30, 2006. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K. The information in this Form 8-K and the Exhibit attached hereto shall not be deemed filed for purposes of Section 18 of the Securities

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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 2.02 shall be deemed to be furnished, and not filed:

99.1 Press release dated July 31, 2006

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### 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: July 31, 2006

By: /s/ Edward A. Stokx  
Edward A. Stokx  
Chief Financial Officer

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### News Release

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

For Release: Immediately  
Date: July 31, 2006  
Contact: Mr. Edward A. Stokx  
(818) 244-8080, Ext. 1649

### PS Business Parks, Inc. Reports Results for the Second Quarter Ended June 30, 2006

**GLENDAL, California** PS Business Parks, Inc. (AMEX:PSB) reported operating results for the second quarter ended June 30, 2006.

Net income allocable to common shareholders for the three months ended June 30, 2006 was \$4.4 million or \$0.20 per diluted share on revenues of \$59.3 million compared to \$5.8 million or \$0.26 per diluted share on revenues of \$55.5 million for the same period in 2005. Net income allocable to common shareholders for the six months ended June 30, 2006 was \$9.5 million or \$0.44 per diluted share on revenues of \$118.2 million compared to \$13.1 million or \$0.59 per diluted share on revenues of \$109.4 million for the same period in 2005.

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Revenues increased \$3.8 million for the three months ended June 30, 2006 primarily as a result of acquired properties along with improved occupancy within the Company's portfolio. Net income allocable to common shareholders for the three months ended June 30, 2006 decreased over the same period of 2005 by \$1.4 million or \$0.06 per diluted share resulting primarily from an increase in non-cash distributions associated with preferred equity redemptions.

Revenues increased \$8.8 million for the six months ended June 30, 2006 as a result of improved occupancy within the Company's portfolio combined with revenues from acquired properties. Net income allocable to common shareholders for the six months ended June 30, 2006 decreased from the same period of 2005 by \$3.6 million or \$0.15 per diluted share resulting primarily from a decrease in the gain on disposition of real estate and an increase in non-cash distributions associated with preferred equity redemptions.

### Supplemental Measures

Funds from operations ( FFO ) allocable to common shareholders and unit holders for the three months ended June 30, 2006 and 2005 were \$25.2 million, or \$0.87 per diluted share, and \$25.8 million, or \$0.88 per diluted share, respectively. FFO allocable to common shareholders and unit holders for the six months ended June 30, 2006 was \$51.9 million, or \$1.79 per diluted share, compared to \$51.6 million, or \$1.76 per diluted share, for the same period in 2005. The decrease in FFO for the three months ended June 30, 2006 over the same period of 2005 was primarily due to an increase in non-cash distributions associated with preferred equity redemptions and a reduction in income from discontinued operations, partially offset by net operating income from acquired properties. The increase in FFO for the six months ended June 30, 2006 over the same period of 2005 was primarily due to net operating income from acquired properties and a payment received from a former tenant in connection with a bankruptcy settlement of approximately \$1.8 million partially offset by an increase in non-cash distributions associated with preferred equity redemptions.

The following table summarizes the impact of the implementation of the SEC's clarification of EITF Topic D-42 on the Company's FFO per common shareholders and unit holders for the three and six months ended June 30, 2006 and 2005:

|                                               | For the Three Months Ended<br>June 30, |         | For the Six Months Ended<br>June 30, |         |
|-----------------------------------------------|----------------------------------------|---------|--------------------------------------|---------|
|                                               | 2006                                   | 2005    | 2006                                 | 2005    |
| FFO per common share, before adjustments..... | \$ 0.93                                | \$ 0.89 | \$ 1.85                              | \$ 1.81 |
| Application of EITF Topic D-42.....           | (0.06)                                 | (0.01)  | (0.06)                               | (0.03)  |
| FFO per common share, as reported.....        | \$ 0.87                                | \$ 0.88 | \$ 1.79                              | \$ 1.78 |

### Property Operations

In order to evaluate the performance of the Company's overall portfolio over two comparable periods, management analyzes the operating performance of a consistent group of properties owned and operated throughout both periods (herein referred to as "Same Park"). Operating properties that the Company acquired subsequent to January 1, 2005 are referred to as "Other Facilities." For the three and six months ended June 30, 2006 and 2005, the Same Park portfolio constitutes 17.2 million net rentable square feet, which includes all assets included in continuing operations the Company owned and operated from January 1, 2005 through June 30, 2006 and represents approximately 95% of the weighted average square footage of the Company's portfolio for 2006.

The Company's property operations account for substantially all of the net operating income earned by the Company. The following table presents the operating results of the Company's properties for the three and six months ended June 30, 2006 in addition to other income and expense items affecting income from continuing operations (unaudited, in thousands, except per square foot amounts):

|                                             | For the Three Months Ended June 30, |      |        | For the Six Months Ended June 30, |
|---------------------------------------------|-------------------------------------|------|--------|-----------------------------------|
|                                             | 2006                                | 2005 | Change | 2006                              |
| Rental income:                              |                                     |      |        |                                   |
| Same Park (17.2 million net rentable square |                                     |      |        |                                   |

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|                                                                  |           |           |        |        |
|------------------------------------------------------------------|-----------|-----------|--------|--------|
| feet) (1).....                                                   | \$ 55,806 | \$ 55,389 | 0.8%   | \$ 112 |
| Other Facilities (960,000 net rentable square feet) (2).....     | 3,353     | —         | 100.0% | 5      |
|                                                                  | -----     | -----     | -----  | -----  |
| Total rental income.....                                         | 59,159    | 55,389    | 6.8%   | 117    |
|                                                                  | =====     | =====     | =====  | =====  |
| Cost of operations:                                              |           |           |        |        |
| Same Park.....                                                   | 17,134    | 16,623    | 3.1%   | 34     |
| Other Facilities.....                                            | 1,061     | —         | 100.0% | 1      |
|                                                                  | -----     | -----     | -----  | -----  |
| Total cost of operations.....                                    | 18,195    | 16,623    | 9.5%   | 36     |
|                                                                  | -----     | -----     | -----  | -----  |
| Net operating income (3):                                        |           |           |        |        |
| Same Park.....                                                   | 38,672    | 38,766    | (0.2%) | 78     |
| Other Facilities.....                                            | 2,292     | —         | 100.0% | 3      |
|                                                                  | -----     | -----     | -----  | -----  |
| Total net operating income.....                                  | 40,964    | 38,766    | 5.7%   | 81     |
|                                                                  | -----     | -----     | -----  | -----  |
| Other income and expenses:                                       |           |           |        |        |
| Facility management fees.....                                    | 146       | 144       | 1.4%   |        |
| Interest and other income.....                                   | 1,573     | 982       | 60.2%  | 3      |
| Interest expense.....                                            | (517)     | (280)     | 84.6%  | (1)    |
| Depreciation and amortization.....                               | (20,950)  | (18,486)  | 13.3%  | (41)   |
| General and administrative.....                                  | (1,872)   | (1,326)   | 41.2%  | (3)    |
|                                                                  | -----     | -----     | -----  | -----  |
| Income from continuing operations before minority interests..... | \$ 19,344 | \$ 19,800 | (2.3%) | \$ 39  |
|                                                                  | =====     | =====     | =====  | =====  |
| Same Park gross margin (4).....                                  | 69.3%     | 70.0%     | (1.0%) | 6      |
| Same Park weighted average for period:                           |           |           |        |        |
| Occupancy.....                                                   | 93.2%     | 91.9%     | 1.4%   | 9      |
| Annualized realized rent per square foot (5)...                  | \$ 13.89  | \$ 13.98  | (0.6%) | \$     |

(1) See above for a definition of Same Park.

(2) Represents operating properties owned by the Company as of June 30, 2006 that are not include

(3) Net operating income ("NOI") is an important measurement in the commercial real estate industry. The real estate generating the NOI. The Company's calculation of NOI may not be comparable to other companies' calculations and should not be used as an alternative to measures of performance in accordance with generally accepted accounting principles ("GAAP").

(4) Same Park gross margin is computed by dividing NOI by rental income.

(5) Same Park realized rent per square foot represents the annualized revenues earned per occurrence of a bankruptcy settlement of \$1.8 million, Same Park realized rent per square foot would have ended June 30, 2006.

### Financial Condition

The following are key financial ratios with respect to the Company's leverage at and for the three months ended June 30, 2006.

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|                                                                                                                            |                 |
|----------------------------------------------------------------------------------------------------------------------------|-----------------|
| Ratio of FFO to fixed charges (1).....                                                                                     | 78.9x           |
| Ratio of FFO to fixed charges and preferred distributions (1).....                                                         | 2.9x            |
| Debt and preferred equity to total market capitalization (based on<br>common stock price of \$59.00 at June 30, 2006)..... | 31.7%           |
| Available under line of credit at June 30, 2006.....                                                                       | \$100.0 million |

(1) Fixed charges include interest expense of \$517,000.

### **Property Acquisitions**

On June 29, 2006, the Company closed on the purchase of Meadows Corporate Park, a 165,000 square foot multi-tenant office park in Silver Spring, Maryland, for \$29.9 million. The park, which consists of two three-story buildings and one four-story building, was 92.1% leased with 40 tenants at the time of acquisition. In connection with the purchase, the Company assumed a \$16.8 million mortgage with a fixed rate of 7.2% which can be repaid in November, 2011. The buildings are adjacent to the 366,000 square foot WesTech Business Park that the Company acquired in February of this year.

On June 20, 2006, the Company purchased Beaumont at Lafayette, a 107,300 square foot multi-tenant flex park in Chantilly, Virginia, for \$15.8 million. At the time of acquisition, the property was 84.0% leased to 16 tenants in two single-story buildings. The buildings are adjacent to a 197,000 square foot complex that the Company acquired and developed between 1999 and 2001.

On June 14, 2006, the Company purchased four multi-tenant flex buildings, aggregating 88,800 square feet, located in Signal Hill, California, for \$10.7 million. At the time of acquisition, the buildings were 97.7% leased to 52 tenants. The Company also owns 178,000 square feet of multi-tenant flex assets in the Signal Hill submarket.

On February 8, 2006, the Company acquired WesTech Business Park, a 366,000 square foot office and flex park in Silver Spring, Maryland, for approximately \$69.7 million. The park, which was approximately 95.0% occupied at the time of acquisition, consists of nine single-story buildings.

### **Property Dispositions**

During the quarter ended June 30, 2006, the Company sold two assets previously classified as properties held for disposition. In May, 2006, the Company sold a 30,500 square foot building located in Beaverton, Oregon, for a gross sales price of approximately \$4.4 million, resulting in a gain of \$1.5 million. In addition, in May, 2006, the Company sold a 7,100 square foot unit at Miami International Commerce Center ( MICC ) for a gross sales price of \$815,000 resulting in a gain of \$154,000.

During the three months ended March 31, 2006, the Company sold three units at MICC aggregating 25,300 square feet with a combined gross sale price of \$2.9 million. In connection with these sales, the Company recognized gains of \$711,000.

### **Stock Repurchase Program**

The Company's Board of Directors has authorized the repurchase, from time to time, of up to 4.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. During the three months ended June 30, 2006, the Company repurchased 84,100 shares of common stock at a cost of approximately \$4.4 million. Since inception of the program through June 30, 2006, the Company has repurchased an aggregate of 3.3 million shares of common stock at an aggregate cost of approximately \$102.6 million (average cost of \$31.18 per share). No shares were repurchased during the three months ended June 30, 2005.

### **Distributions Declared**

The Board of Directors declared a quarterly dividend of \$0.29 per common share on July 31, 2006. 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 September 28, 2006 to shareholders of record on September 13, 2006.

| Series | Dividend Rate | Dividend Declared |
|--------|---------------|-------------------|
| -----  | -----         | -----             |

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|          |        |          |
|----------|--------|----------|
| Series F | 8.750% | 0.546875 |
| Series H | 7.000% | 0.437500 |
| Series I | 6.875% | 0.429688 |
| Series K | 7.950% | 0.496875 |
| Series L | 7.600% | 0.475000 |
| Series M | 7.200% | 0.450000 |
| Series O | 7.375% | 0.537760 |

### Company Information

PS Business Parks, Inc., a member of the S&P SmallCap 600, is a self-advised and self-managed equity real estate investment trust ( REIT ) 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 June 30, 2006, PSB wholly owned approximately 18.2 million net rentable square feet of commercial space with approximately 3,500 customers located in eight states, concentrated in California (5.5 million sq. ft.), Texas (2.8 million sq. ft.), Florida (3.2 million sq. ft.), Oregon (1.3 million sq. ft.), Virginia (2.9 million sq. ft.), Maryland (1.8 million sq. ft.) and Arizona (0.7 million sq. ft.).

### Forward-Looking Statements

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 REITs; 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 second quarter operating results, is available on the Internet. The Company's website is [www.psbusinessparks.com](http://www.psbusinessparks.com).

A conference call is scheduled for Tuesday, August 1, 2006, at 9:00 a.m. (PDT) to discuss the second quarter results. The toll free number is 1-800-399-4409; the conference ID is 1744316. 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 August 8, 2006 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 June 30, 2006 | At December 31, |
|--------------------------------------------------------------|------------------|-----------------|
| <u>Balance Sheet Data:</u>                                   |                  |                 |
| Cash and cash equivalents.....                               | \$ 114,376       | \$              |
| Properties held for disposition, net.....                    | \$ 792           | \$              |
| Real estate facilities, before accumulated depreciation..... | \$ 1,715,763     | \$              |
| Total assets.....                                            | \$ 1,475,970     | \$              |
| Total debt.....                                              | \$ 43,497        | \$              |

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|                                          |    |         |    |
|------------------------------------------|----|---------|----|
| Minority interest - common units.....    | \$ | 166,247 | \$ |
| Minority interest - preferred units..... | \$ | 135,750 | \$ |
| Perpetual preferred stock.....           | \$ | 602,500 | \$ |
| Common shareholders' equity.....         | \$ | 484,342 | \$ |

|                                                    |        |
|----------------------------------------------------|--------|
| Total common shares outstanding at period end..... | 21,283 |
|----------------------------------------------------|--------|

|                                                                                                                              |        |
|------------------------------------------------------------------------------------------------------------------------------|--------|
| Total common shares outstanding at period end, assuming conversion of all Operating Partnership units into common stock..... | 28,588 |
|------------------------------------------------------------------------------------------------------------------------------|--------|

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

|                                                                  | For the Three Months<br>Ended June 30, |           |
|------------------------------------------------------------------|----------------------------------------|-----------|
|                                                                  | 2006                                   | 2005      |
| Revenues:                                                        |                                        |           |
| Rental income.....                                               | \$ 59,159                              | \$ 55,389 |
| Facility management fees.....                                    | 146                                    | 144       |
| Total operating revenues.....                                    | 59,305                                 | 55,533    |
| Expenses:                                                        |                                        |           |
| Property operations.....                                         | 18,195                                 | 16,623    |
| Depreciation and amortization.....                               | 20,950                                 | 18,486    |
| General and administrative.....                                  | 1,872                                  | 1,326     |
| Total operating expenses.....                                    | 41,017                                 | 36,435    |
| Other income and expenses:                                       |                                        |           |
| Interest and other income.....                                   | 1,573                                  | 982       |
| Interest expense.....                                            | (517)                                  | (280)     |
| Total other income and expenses.....                             | 1,056                                  | 702       |
| Income from continuing operations before minority interests..... | 19,344                                 | 19,800    |
| Minority interests in continuing operations:                     |                                        |           |
| Minority interest in income - preferred units:                   |                                        |           |
| Distributions paid to preferred unit holders.....                | (2,781)                                | (2,691)   |
| Redemption of preferred operating partnership units              | -                                      | (301)     |
| Minority interest in income - common units.....                  | (1,097)                                | (1,517)   |

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|                                                                                              |          |          |
|----------------------------------------------------------------------------------------------|----------|----------|
| Total minority interests in continuing operations..                                          | (3,878)  | (4,509)  |
| Income from continuing operations .....                                                      | 15,466   | 15,291   |
| Discontinued operations:                                                                     |          |          |
| (Loss) income from discontinued operations.....                                              | (28)     | 602      |
| Gain on disposition of real estate.....                                                      | 1,617    | 1,016    |
| Minority interest in earnings attributable to<br>discontinued operations - common units..... | (404)    | (404)    |
| Income from discontinued operations.....                                                     | 1,185    | 1,214    |
| Net income.....                                                                              | 16,651   | 16,505   |
| Net income allocable to preferred shareholders:                                              |          |          |
| Preferred distributions:                                                                     |          |          |
| Preferred distributions paid.....                                                            | 10,598   | 10,733   |
| Redemption of preferred stock.....                                                           | 1,658    | -        |
| Total preferred distributions.....                                                           | 12,256   | 10,733   |
| Net income allocable to common shareholders.....                                             | \$ 4,395 | \$ 5,772 |
| Net income per common share - basic:                                                         |          |          |
| Continuing operations.....                                                                   | \$ 0.15  | \$ 0.21  |
| Discontinued operations.....                                                                 | \$ 0.06  | \$ 0.06  |
| Net income.....                                                                              | \$ 0.21  | \$ 0.26  |
| Net income per common share - diluted:                                                       |          |          |
| Continuing operations.....                                                                   | \$ 0.15  | \$ 0.21  |
| Discontinued operations.....                                                                 | \$ 0.05  | \$ 0.06  |
| Net income.....                                                                              | \$ 0.20  | \$ 0.26  |
| Weighted average common shares outstanding:                                                  |          |          |
| Basic.....                                                                                   | 21,311   | 21,893   |
| Diluted.....                                                                                 | 21,585   | 22,029   |

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

For the Three Months Ended  
June 30,

|      |      |
|------|------|
| 2006 | 2005 |
|------|------|

## Computation of Diluted Funds From Operations

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## per Common Share ("FFO") (1):

|                                                                                                               |    |         |    |         |
|---------------------------------------------------------------------------------------------------------------|----|---------|----|---------|
| Net income allocable to common shareholders.....                                                              | \$ | 4,395   | \$ | 5,772   |
| Adjustments:                                                                                                  |    |         |    |         |
| Gain on disposition of real estate.....                                                                       |    | (1,617) |    | (1,016) |
| Depreciation and amortization.....                                                                            |    | 20,950  |    | 19,084  |
| Minority interest in income - common units.....                                                               |    | 1,501   |    | 1,921   |
|                                                                                                               |    | -----   |    | -----   |
| FFO allocable to common shareholders/unit holders.....                                                        | \$ | 25,229  | \$ | 25,761  |
|                                                                                                               |    | =====   |    | =====   |
| Weighted average common shares outstanding.....                                                               |    | 21,311  |    | 21,893  |
| Weighted average common OP units outstanding.....                                                             |    | 7,305   |    | 7,305   |
| Weighted average common stock equivalents outstanding..                                                       |    | 274     |    | 136     |
|                                                                                                               |    | -----   |    | -----   |
| Weighted average common shares and OP units for purposes<br>of computing fully-diluted FFO per common share.. |    | 28,890  |    | 29,334  |
|                                                                                                               |    | =====   |    | =====   |
| Diluted FFO per common share equivalent.....                                                                  | \$ | 0.87    | \$ | 0.88    |
|                                                                                                               |    | =====   |    | =====   |

## Computation of Funds Available for Distribution ("FAD") (2):

|                                                        |    |           |    |         |
|--------------------------------------------------------|----|-----------|----|---------|
| FFO allocable to common shareholders.....              | \$ | 25,229    | \$ | 25,761  |
| Adjustments:                                           |    |           |    |         |
| Maintenance capital expenditures.....                  |    | (1,859)   |    | (1,165) |
| Tenant improvements.....                               |    | (5,539)   |    | (5,259) |
| Lease commissions.....                                 |    | (2,277)   |    | (1,679) |
| Straight-line rent.....                                |    | (1,031)   |    | (1,069) |
| Stock-based compensation expense.....                  |    | 719       |    | 306     |
| In-place rents adjustment.....                         |    | 59        |    | 39      |
| Lease incentives.....                                  |    | 133       |    | -       |
| Impact of EITF Topic D-42.....                         |    | 1,658     |    | 301     |
| FAD.....                                               | \$ | 17,092    | \$ | 17,235  |
|                                                        |    | =====     |    | =====   |
|                                                        |    | \$ 17,092 |    |         |
|                                                        |    | =====     |    | =====   |
| Distributions to common shareholders/unit holders..... |    |           |    |         |
| Distributions to common shareholders/unit holders..... | \$ | 8,290     | \$ | 8,460   |
|                                                        |    | =====     |    | =====   |
| Distribution payout ratio.....                         |    | 48.5%     |    | 49.1%   |
|                                                        |    | =====     |    | =====   |

(1) Funds From Operations ("FFO") is computed in accordance with the White Paper on FFO app of the National Association of Real Estate Investment Trusts ("NAREIT"). The White P computed in accordance with GAAP, before depreciation, amortization, minority interest in dispositions and extraordinary items. FFO should be analyzed in conjunction with net income viewed as a substitute for net income as a measure of operating performance or liquidity as and amortization costs or the level of capital expenditure and leasing costs necessary to of the Company's properties, which are significant economic costs and could materially i operations. Other REITs may use different methods for calculating FFO and, accordingly, th comparable to other real estate companies.

(2) Funds available for distribution ("FAD") is computed by deducting from consolidated FFO recu which the Company defines as those costs incurred to maintain the assets' value, tenant im commissions and straight-line rent from FFO and adding stock-based compensation expense, incentives, in-place rents adjustment and the impact of EITF Topic D-42. Like FFO, the

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useful measure for investors to evaluate the operations and cash flows of a REIT. FAD  
cash flow from operations as defined by GAAP.