UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2002.

or

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

For the transition period from _____ to _____

Commission File Number 1-10709

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

California	**95-4300881**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

701 Western Avenue, Glendale, California 91201-2397
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: **(818) 244-8080**
Securities registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 9 ¼% Cumulative Preferred Stock, Series A, $0.01 par value ..	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 9 ½% Cumulative Preferred Stock, Series D, $0.01 par value ..	American Stock Exchange
Depositary Shares Each Representing 1/1,000 of a Share of 8 ¾% Cumulative Preferred Stock, Series F, $0.01 par value ...	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act
None
(Title of class)

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

Yes X No _____

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

Yes X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 28, 2002:

Common Stock, $0.01 par value, $448,930,269 (computed on the basis of $34.95 per share which was the reported closing sale price of the Company's Common Stock on the American Stock Exchange on June 28, 2002).

The number of shares outstanding of the registrant's class of common stock, as of March 27, 2003:

Common Stock, $0.01 par value, 21,372,219 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2003 are incorporated by reference into Part III.

PART I.

ITEM 1. BUSINESS

The Company

PS Business Parks, Inc. ("PSB") is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties, primarily multi-tenant flex, office and industrial space. As of December 31, 2002, PSB owned approximately 75% of the common partnership units of PS Business Parks, L.P. (the "Operating Partnership" or "OP"). The remaining common partnership units were owned by Public Storage, Inc. ("PSI") and its affiliated entities. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references to "the Company" mean PS Business Parks, Inc. and its subsidiaries, including the Operating Partnership.

As of December 31, 2002, the Company owned and operated approximately 14.4 million net rentable square feet of commercial space located in eight states, representing a 3% decrease in commercial square footage from December 31, 2001. The Company also managed approximately 1.4 million net rentable square feet on behalf of PSI and its affiliated entities, third party owners and a joint venture in which the Company held a 25% ownership interest.

History of the Company: The Company (formerly named Public Storage Properties XI, Inc.) was formed in 1990 to own and operate primarily mini-warehouse facilities. In a March 17, 1998 merger (the "Merger") of American Office Park Properties, Inc. ("AOPP") with and into the Company, the Company acquired the commercial property business previously operated by AOPP and was renamed "PS Business Parks, Inc." Concurrent with the Merger, the Company exchanged 11 mini-warehouses and two properties that combined mini-warehouse and commercial space for 11 commercial properties owned by PSI. For financial accounting purposes, the Merger was accounted for as a reverse acquisition whereby AOPP was deemed to have acquired Public Storage Properties XI, Inc. However, PS Business Parks, Inc. is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes.

AOPP was originally organized in 1986 as a California corporation to serve as the manager of the commercial properties owned by PSI and its affiliated entities. In January 1997, AOPP was reorganized to succeed to the commercial property business of PSI, becoming a fully integrated, self-advised and self-managed REIT. AOPP conducted substantially all of its business as the sole general partner of the Operating Partnership. In 1997, as part of a reorganization, PSI and its consolidated partnerships contributed properties containing 2.9 million square feet of commercial space to AOPP and the Operating Partnership. During the remainder of 1997, AOPP acquired approximately 2 million square feet of additional commercial space from the Acquiport Corporations, subsidiaries of the New York State Common Retirement Fund, and approximately 0.6 million square feet of additional commercial space from other unaffiliated third parties.

From 1998 through 2001, the Company continued to grow. After completing the merger, over the ensuing four years, the Company added 9.7 million square feet in Virginia, Maryland, Texas, Oregon, California, and Arizona, acquiring 9.2 million square feet of commercial space from unaffiliated third parties and developing an additional 500,000 square feet. The cost of these additions was approximately $756 million.

During 2002, although real estate fundamentals softened, asking prices for real properties in the Company's target markets increased. This resulted in an environment is which the Company was unable to identify acquisitions at prices that met its investment criteria. The Company did dispose of four properties totaling 386,000 square feet that no longer met its investment criteria. These dispositions resulted in aggregate net proceeds of $23.3 million.

The Company has elected to be taxed as a REIT under the Internal Revenue Code (the "Code"), commencing with its taxable year ended December 31, 1990. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the net income that is currently distributed to its shareholders.

The Company's principal executive offices are located at 701 Western Avenue, Glendale, California 91201-2397. The Company's telephone number is (818) 244-8080. Additional information about the Company is available on the internet at www.psbusinessparks.com.

Business of the Company: The Company is in the commercial property business, with its principal product type as suburban office, office industrial (also referred to as flex) and industrial. The Company owns approximately 10.9 million square feet of flex space. The Company defines "flex" space as buildings that are configured with a combination of part warehouse space and part office space and can be designed to fit a wide variety of uses. The warehouse component of the flex space has a variety of uses including light manufacturing and assembly, storage and warehousing, showroom, laboratory, distribution and research and development activities. The office component of flex space is complementary to the warehouse component by enabling businesses to accommodate management and production staff in the same facility. The Company also owns approximately 2.2 million square feet of low-rise suburban office space, generally either in business parks that combine office and flex space or in desirable submarkets where the economics of the market demand an office build-out, and approximately 1.3 million square feet of industrial space that have characteristics similar to the warehouse component of the flex space.

The Company's commercial properties typically consist of one to ten low-rise buildings located on three to fifty acres and containing from approximately 20,000 to 900,000 square feet of rentable space in the aggregate. Facilities are managed through either on-site management or area offices central to the facilities. Parking is generally open but in some instances is covered. The ratio of parking spaces to rentable square feet ranges from two to six per thousand square feet depending upon the use of the property and its location. Office space generally requires a greater parking ratio than most industrial uses. The Company may acquire properties that do not have these characteristics.

The tenant base for the Company's facilities is diverse. The portfolio can be bifurcated into those facilities that service small to medium-sized businesses and those that service larger businesses. Approximately 30% of the annual rents from the portfolio are from facilities that serve small to medium-sized businesses. A property in this facility type is typically divided into units ranging in size from 500 to 5,000 square feet and leases generally range from one to three years. The remaining 70% of the annual rents is derived from facilities that serve larger businesses, with units ranging from 5,000 square feet to multiple buildings leased to a single tenant. The U.S. Government is the largest tenant and leases 524,000 square feet or approximately 6.1% of the Company's portfolio.

The Company intends to continue acquiring commercial properties located throughout the United States. The Company's policy of acquiring commercial properties may be changed by its Board of Directors without shareholder approval. However, the Board of Directors has no intention of changing this policy at this time. Although the Company currently owns properties in nine states, it may expand its operations to other states or reduce the number of states in which it operates. Properties are acquired for both income and potential capital appreciation; there is no limitation on the amount that can be invested in any specific property.

The Company may acquire land for the development of commercial properties. In general, the Company expects to acquire land that is adjacent to commercial properties that the Company already owns or is acquiring. The Company owned approximately 6.4 acres of land in Northern Virginia, 27.4 acres in Portland, Oregon, 1.0 acre in Rockville, Maryland and 10.0 acres in Dallas, Texas as of December 31, 2002.

Operating Partnership

The properties in which the Company has an equity interest will generally be owned by the Operating Partnership. The Company has the ability to acquire interests in additional properties in transactions that could defer the contributors' tax consequences by causing the Operating Partnership to issue equity interests in return for interests in properties.

As the general partner of the Operating Partnership, the Company has the exclusive power under the Operating Partnership Agreement to manage and conduct the business of the Operating Partnership. The Board of Directors directs the affairs of the Operating Partnership by managing the Company's affairs. The Operating Partnership will be responsible for, and pay when due, its share of all administrative and operating expenses of the properties it owns.

The Company's interest in the Operating Partnership entitles it to share in cash distributions from, and the profits and losses of, the Operating Partnership in proportion to the Company's economic interest in the Operating Partnership (apart from tax allocations of profits and losses to take into account pre-contribution property appreciation or depreciation).

Summary of the Operating Partnership Agreement

The following summary of the Operating Partnership Agreement is qualified in its entirety by reference to the Operating Partnership Agreement, which is incorporated by reference as an exhibit to this report.

Issuance of Additional Partnership Interests: As the general partner of the Operating Partnership, the Company is authorized to cause the Operating Partnership from time to time to issue to partners of the Operating Partnership or to other persons additional partnership units in one or more classes, and in one or more series of any of such classes, with such designations, preferences and relative, participating, optional, or other special rights, powers and duties (which may be senior to the existing partnership units), as will be determined by the Company, in its sole and absolute discretion. No such additional partnership units, however, will be issued to the Company unless (i) the agreement to issue the additional partnership interests arises in connection with the issuance of shares of the Company, which shares have designations, preferences and other rights, such that the economic interests are substantially similar to the designations, preferences and other rights of the additional partnership units that would be issued to the Company and (ii) the Company agrees to make a capital contribution to the Operating Partnership in an amount equal to the net proceeds raised in connection with the issuance of such shares of the Company.

Capital Contributions: No partner is required to make additional capital contributions to the Operating Partnership, except that the Company as the general partner is required to contribute the net proceeds of the sale of equity interests in the Company to the Operating Partnership in return for additional partnership units. A limited partner may be required to pay to the Operating Partnership any taxes paid by the Operating Partnership on behalf of that limited partner. No partner is required to pay to the Operating Partnership any deficit or negative balance which may exist in its capital account.

Distributions: The Company, as general partner, is required to distribute at least quarterly the "available cash" (as defined in the Operating Partnership Agreement) generated by the Operating Partnership for such quarter. Distributions are to be made (i) first, with respect to any class of partnership interests having a preference over other classes of partnership interests; and (ii) second, in accordance with the partners' respective percentage interests on the "partnership record date" (as defined in the Operating Partnership Agreement). Commencing in 1998, the Operating Partnership's policy has been to make distributions per unit (other than preferred units) that are equal to the per share distributions made by the Company with respect to its Common Stock.

Preferred Units: As of December 31, 2002, the Operating Partnership had 8,710,000 preferred units owned by third parties with distribution rates ranging from 7.95% to 9.25% (per annum) with an aggregate stated value of $217,750,000. The Operating Partnership has the right to redeem the preferred units on or after the fifth anniversary of the issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. Each series of preferred units is exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PS Business Parks, Inc. on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the applicable series of preferred units.

As of December 31, 2002, the Company owned 2,198,500 preferred units with a stated value of approximately $54.9 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 9 ¼% Cumulative Preferred Stock, Series A of the Company, 2,634,000

preferred units with a stated value of $65.9 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 9 ½% Cumulative Preferred Stock, Series D of the Company and 2,000,000 preferred units with a stated value of $50.0 million with terms substantially identical to the terms of the publicly traded depositary shares each representing 1/1,000 of a share of 8 ¾% Cumulative Preferred Stock, Series F of the Company. The holders of all series of Preferred Stock may combine to elect two directors if the Company fails to make dividend payments for two consecutive quarters.

Redemption of Partnership Interests: Subject to certain limitations described below, each limited partner other than the Company (other than holders of preferred units) has the right to require the redemption of such limited partner's units. This right may be exercised on at least 10 days notice at any time or from time to time, beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership (unless otherwise contractually agreed by the general partner).

Unless the Company, as general partner, elects to assume and perform the Operating Partnership's obligation with respect to a redemption right, as described below, a limited partner that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the "redemption amount" (as defined in the Operating Partnership Agreement generally to reflect the average trading price of the Common Stock of the Company over a specified 10 day period) for the units redeemed. In lieu of the Operating Partnership redeeming the units for cash, the Company, as the general partner, has the right to elect to acquire the units directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above as the "redemption amount" or by issuance of the "shares amount" (as defined in the Operating Partnership Agreement generally to mean the issuance of one share of the Company Common Stock for each unit of limited partnership interest redeemed).

A limited partner cannot exercise its redemption right if delivery of shares of Common Stock would be prohibited under the articles of incorporation of the Company or if the general partner believes that there is a risk that delivery of shares of Common Stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities or certain antitrust laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

Limited Partner Transfer Restrictions: Limited partners generally may not transfer partnership interests (other than to their estates, immediate family or certain affiliates) without the prior written consent of the Company as general partner, which consent may be given or withheld in its sole and absolute discretion. The Company, as general partner has a right of first refusal to purchase partnership interests proposed to be sold by the limited partners. Transfers of partnership interests are not permitted if the transfer would adversely affect the Company's ability to qualify as a REIT or could subject the Company to any additional taxes under Section 857 or Section 4981 of the Code.

Management: The Operating Partnership is organized as a California limited partnership. The Company, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership, except as provided in the Operating Partnership Agreement and by applicable law. The limited partners of the Operating Partnership have no authority to transact business for, or participate in the management activities or decisions of, the Operating Partnership except as provided in the Operating Partnership Agreement and as permitted by applicable law. The Operating Partnership Agreement provides that the general partner may not be removed by the limited partners.

However, the consent of the limited partners holding a majority of the interests of the limited partners (including limited partnership interests held by the Company) generally will be required to amend the Operating Partnership Agreement. Further, the Operating Partnership Agreement cannot be amended without the consent of each partner adversely affected if, among other things, the amendment would alter the partner's rights to distributions from the Operating Partnership (except as specifically permitted in the Operating Partnership Agreement), alter the redemption right, or impose on the limited partners an obligation to make additional capital contributions.

The consent of all limited partners will be required to (i) take any action that would make it impossible to carry on the ordinary business of the Operating Partnership, except as otherwise provided in the Operating Partnership Agreement; or (ii) possess Operating Partnership property, or assign any rights in specific Operating Partnership property, for other than an Operating Partnership purpose except as otherwise provided in the Operating Partnership Agreement. In addition, without the consent of any adversely affected limited partner, the general partner may not perform any act that would subject a limited partner to liability as a general partner in any jurisdiction or any other liability except as provided in the Operating Partnership Agreement or under California law.

Extraordinary Transactions: The Operating Partnership Agreement provides that the Company may not engage in any business combination, defined to mean any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, any reclassification, any recapitalization (other than certain stock splits or stock dividends) or change of outstanding shares of common stock, unless (i) the limited partners of the Operating Partnership will receive, or have the opportunity to receive, the same proportionate consideration per unit in the transaction as shareholders of the Company (without regard to tax considerations); or (ii) limited partners of the Operating Partnership (other than the general partner) holding at least 60% of the interests in the Operating Partnership held by limited partners (other than the general partner) vote to approve the business combination. In addition, the Company, as general partner of the Operating Partnership, has agreed in the Operating Partnership Agreement with the limited partners of the Operating Partnership that it will not consummate a business combination in which the Company conducted a vote of shareholders unless the matter is also submitted to a vote of the partners.

The foregoing provision of the Operating Partnership Agreement would under no circumstances enable or require the Company to engage in a business combination which required the approval of shareholders if the shareholders of the Company did not in fact give the requisite approval. Rather, if the shareholders did approve a business combination, the Company would not consummate the transaction unless the Company as general partner first conducts a vote of partners of the Operating Partnership on the matter. For purposes of the Operating Partnership vote, the Company shall be deemed to vote its partnership interest in the same proportion as the shareholders of the Company voted on the matter (disregarding shareholders who do not vote). The Operating Partnership vote will be deemed approved if the votes recorded are such that if the Operating Partnership vote had been a vote of shareholders, the business combination would have been approved by the shareholders. As a result of these provisions of the Operating Partnership, a third party may be inhibited from making an acquisition proposal for the Company that it would otherwise make, or the Company, despite having the requisite authority under its articles of incorporation, may not be authorized to engage in a proposed business combination.

Tax Protection Provisions: The Operating Partnership Agreement provides that, until 2007, the Operating Partnership may not sell any of 12 designated properties in a transaction that will produce taxable gain for the contributing partner without the prior written consent of PSI. The Operating Partnership is not required to obtain PSI's consent if PSI and its affiliated partnerships do not continue to hold at the time of the sale at least 30% of their original interest in the Operating Partnership. Since PSI's consent is required only in connection with a taxable sale of one of the 12 designated properties, the Operating Partnership will not be required to obtain PSI's consent in connection with a "like-kind" exchange or other nontaxable transaction involving one of these properties. Such properties have been sold with consent not withheld. These properties represent 8.8% of the square footage in the Company's portfolio.

Indemnification: The Operating Partnership Agreement provides that the Company and its officers and directors and the limited partners of the Operating Partnership will be indemnified and held harmless by the Operating Partnership for any act performed for, or on behalf of, the Operating Partnership, or in furtherance of the Operating Partnership's business unless it is established that (i) the act or omission of the indemnified person was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the indemnified person actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the indemnified person did not meet the requisite standards of conduct set forth above. The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an

entry of an order of probation prior to judgment, creates a rebuttable presumption that the indemnified person did not meet the requisite standard of conduct set forth above. Any indemnification so made shall be made only out of the assets of the Operating Partnership or through insurance obtained by the operating partnership.

Duties and Conflicts: The Operating Agreement allows the Company to operate the Operating Partnership in a manner that will enable the Company to satisfy the requirements for being classified as a REIT. The Company intends to conduct all of its business activities, including all activities pertaining to the acquisition, management and operation of properties, through the Operating Partnership. However, the Company may own, directly or through subsidiaries, interests in Operating Partnership properties that do not exceed 1% of the economic interest of any property, and if appropriate for regulatory, tax or other purposes, the Company also may own, directly or through subsidiaries, interests in assets that the Operating Partnership otherwise could acquire, if the Company grants to the Operating Partnership the option to acquire the assets within a period not to exceed three years in exchange for the number of partnership units that would be issued if the Operating Partnership had acquired the assets at the time of acquisition by the Company.

Term: The Operating Partnership will continue in full force and effect until December 31, 2096 or until sooner dissolved upon the withdrawal of the general partner (unless the limited partners elect to continue the Operating Partnership), or by the election of the general partner (with the consent of the holders of a majority of the partnerships interests if such vote is held before January 1, 2056), in connection with a merger or the sale or other disposition of all or substantially all of the assets of the Operating Partnership, or by judicial decree.

Cost Allocation and Administrative Services

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PSI and affiliated entities for certain administrative services. These services include employee relations, insurance, administration, management information systems, legal, income tax and office services. Under this agreement, costs are allocated to the Company in accordance with its proportionate share of these costs. These allocated costs totaled $337,000, $834,000, and $746,000 for the years ended December 31, 2002, 2001 and 2000, respectively. In addition, in November, 2002, Ronald L. Havner, Jr. was appointed Chief Executive Officer of PSI and serves both Company and PSI in that position. An allocation of his compensation for the year was reviewed by the Company's compensation committee.

Common Officers and Directors

Ronald L. Havner, Jr., the Chairman and Chief Executive Officer of the Company, is the Vice-Chairman and Chief Executive Officer of PSI. Harvey Lenkin, the President of PSI, is a Director of both the Company and PSI. The Company engages additional executive personnel who render services exclusively for the Company. However, it is expected that certain officers of PSI will continue to render services for the Company as requested.

Property Management

The Company continues to manage commercial properties owned by PSI and its affiliates, which are generally adjacent to mini-warehouses, for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. The property management contract with PSI for PSI owned properties is for a seven-year term with the term extended one year upon each anniversary date. For PSI affiliate owned properties, PSI can cancel the property management contract upon 60 days notice while the Operating Partnership can cancel upon seven years notice. Management fee revenue derived from these management contracts with affiliates totaled approximately $561,000 for the year ended December 31, 2002 including $431,000 directly from PSI and $130,000 from affiliates of PSI.

Management

Ronald L. Havner, Jr. (45), Chairman and Chief Executive Officer, heads the Company's senior management team. Mr. Havner has been Chief Executive Officer of the Company or AOPP since December 1996. He became Chairman of the Company in March 1998. He was Senior Vice President and Chief Financial Officer of

PSI from 1992 until December 1996 and became Vice-Chairman and Chief Executive officer of PSI in November 2002. The Company's executive management includes: Joseph D. Russell, Jr. (43), President; Jack Corrigan (42), Vice President and Chief Financial Officer; Michael Lynch (50), Vice President-Acquisitions and Development; Stephen King (46), Vice President and Chief Operating Officer; Joseph Miller (39) Vice President and Corporate Controller; Angelique Benschneider (40), Vice President (Midwest Division); Maria Hawthorne (43), Vice President (Northern Virginia Division); Bill McFaul (37) Vice President (Maryland Division); and Eileen Newkirk (54), Vice President (Pacific Northwest Division).

REIT Structure

If certain detailed conditions imposed by the Code and the related Treasury Regulations are met, an entity, such as the Company, that invests principally in real estate and that otherwise would be taxed as a corporation may elect to be treated as a REIT. The most important consequence to the Company of being treated as a REIT for federal income tax purposes is that this enables the Company to deduct dividend distributions (including distributions on preferred stock) to its shareholders, thus effectively eliminating the "double taxation" (at the corporate and shareholder levels) that typically results when a corporation earns income and distributes that income to shareholders in the form of dividends.

The Company believes that it has operated, and intends to continue to operate, in such a manner as to qualify as a REIT under the Code, but no assurance can be given that it will at all times so qualify. To the extent that the Company continues to qualify as a REIT, it will not be taxed, with certain limited exceptions, on the taxable income that is distributed to its shareholders.

Growth Strategy

The Company believes its operating strategy, acquisition strategy and finance strategy combined with its diversified portfolio produces a lower risk, higher growth business model. The Company's primary objective is to grow Net Asset Value per share. Net Asset Value per share is determined by estimating the value of real estate holdings by applying a capitalization rate to net operating income. Tangible assets are added and liabilities and the par value of preferred units and stock are subtracted. The resulting Net Asset Value is then divided by the number of common shares and units to calculate the Net Asset Value per share. Key elements of the Company's growth strategy include:

Increase Net Cash Flow of Existing Properties: The Company seeks to maximize the net cash flow generated by its existing properties by (i) maximizing average occupancy rates, (ii) achieving higher levels of realized monthly rents per occupied square foot, and (iii) reducing its operating cost structure by improving operating efficiencies and economies of scale. The Company believes that its experienced property management personnel and comprehensive systems combined with increasing economies of scale will enhance the Company's ability to meet these goals. The Company seeks to increase occupancy rates and realized monthly rents per square foot by providing its field personnel with incentives to lease space to higher credit tenants and to maximize the return on investment in each lease transaction. The return for these incentive purposes is measured by the internal rate of return on each lease transaction after deducting tenant improvements and lease commissions. The Company seeks to reduce its cost structure by controlling capital expenditures associated with re-leasing space by acquiring and owning properties with easily reconfigured space that appeal to a wide range of tenants.

Focus on Targeted Markets: The Company intends to continue investing in markets that have characteristics which enable them to be competitive economically in the short and long-term. The Company believes that markets with above average population growth, education levels and personal income will produce better economic returns. As of December 31, 2002, 95% of the Company's square footage was located in these targeted core markets. Based on information provided by Claritas Inc., these markets have experienced over twice the population growth of the United States average over the past decade. In addition, these markets, on average, have 35% more college graduates and 23% more household income than the United States average. The Company targets individual properties in those markets that are close to important services and universities and have easy access to major transportation arteries.

Use Knowledge of Core Markets to Make Opportunistic Acquisitions in a Fragmented Industry: The Company believes its knowledge of its core markets enhances its ability to identify attractive acquisition opportunities and capitalize on the overall fragmentation in the "flex" space industry. The Company maintains local market information on rates, occupancies and competition in each of its core markets. According to Torto Wheaton Research, there is approximately 1.4 billion square feet of "flex" space facilities in the United States. The Company as one of the largest operators of flex space owns less than 1% of the total market. The Company believes that the fragmented nature of this market creates opportunities for the Company to use its knowledge to make acquisitions on favorable terms.

Reduce Expenditures and Increase Occupancy Rates by Providing Flexible Properties and Attracting a Diversified Tenant Base: By focusing on properties with easily reconfigured space, the Company can offer facilities that appeal to a wide range of potential tenants, which aids in reducing the capital expenditures associated with re-leasing space. Such property flexibility also allows the Company to better serve existing tenants by accommodating their inevitable expansion and contraction needs. In addition, the Company believes that a diversified tenant base and property flexibility helps it maintain high occupancy rates during periods when market demand is weak, enabling it to attract the greatest number of potential users to its space.

Provide Superior Property Management: The Company seeks to provide a superior level of service to its tenants in order to achieve high occupancy and rental rates, as well as minimize customer turnover. The Company's property management offices are primarily located on-site, providing tenants with convenient access to management. On-site staff enables the Company's properties to be well maintained and to convey a sense of quality, order and security. The Company has significant experience in acquiring properties managed by others and thereafter improving tenant satisfaction, occupancy levels, renewal rates and rental income by implementing established tenant service programs.

Develop New Properties in Existing Core Markets: The Company's development strategy is to selectively construct new properties next to business parks in which it already owns properties. The Company develops these properties using the expertise of local development companies. The Company plans to keep development properties to less than 5% of its portfolio on a book value basis before deducting accumulated depreciation. In addition, the Company plans to limit development activity in 2003 to first generation leasing costs on completed developments and developments that have been pre-leased.

Financing Strategy

The Company's primary objective in its financing strategy is to maintain financial flexibility and a low risk capital structure using permanent capital to finance its growth. Key elements of this strategy are:

Retain Operating Cash Flow: The Company seeks to retain significant funds (after funding its distributions and capital improvements) for additional investments and debt reduction. During the year ended December 31, 2002, the Company distributed 33% of its funds from operations ("FFO") to common shareholders/unitholders and retained $47.4 million, after recurring capital expenditures and excluding the special dividend relating to 2001, for principal payments on debt, repurchasing its common stock and reinvestment into real estate assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

Perpetual Preferred Stock/Units: The primary source of leverage in the capital structure is perpetual preferred stock or the equivalent units in the operating partnership. This method of financing eliminates interest rate and refinancing risks because the dividend rate is fixed and the stated value or capital contribution is not required to be repaid. In addition, the consequences of defaulting on required preferred distributions is less severe than with debt. The preferred stockholders may cumulatively elect two directors if two consecutive quarterly distributions go unpaid.

Debt Financing: The Company uses debt financing to a limited degree. This debt financing comes in three forms. 1) An unsecured $100 million revolving line of credit with Wells Fargo Bank is used as a temporary short term source of acquisition financing, 2) the Company entered into a seven year unsecured $50 million term

loan facility with Fleet National Bank to provide flexibility under the line of credit but also continue to take advantage of the short-term interest rate environment and 3) the Company assumes mortgage debt in connection with property acquisitions.

Access to Acquisition Capital: The Company believes that its strong financial position will enable it to access capital to finance its future growth. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). Market capitalization includes debt, preferred equity and the fair market value of the common shares and partnership units based upon the quoted market price. In addition, the Company targets a ratio of FFO to combined fixed charges and preferred distributions of 2.5 to 1.0. Fixed charges include interest expense and capitalized interest. Preferred distributions include amounts paid to preferred shareholders and preferred Operating Partnership unitholders. As of December 31, 2002 and for the year then ended respectively, the leverage ratio was 33% and the FFO to combined fixed charges and preferred distributions ratio was 3.6 to 1.0. Subject to market conditions, the Company intends to add leverage to its capital structure primarily through the issuance of preferred stock or partnership units.

Competition

Competition in the market areas in which many of the Company's properties are located is significant and has reduced the occupancy levels and rental rates of, and increased the operating expenses of, certain of these properties. Competition may be accelerated by any increase in availability of funds for investment in real estate. Barriers to entry are relatively low for those with the necessary capital and the Company will be competing for property acquisitions and tenants with entities that have greater financial resources than the Company. Recent increases in sublease space and unleased developments are expected to further intensify competition among operators in certain market areas in which the Company operates.

The Company's properties compete for tenants with similar properties located in its markets primarily on the basis of location, rent charged, services provided and the design and condition of improvements. The Company believes it possesses several distinguishing characteristics that enable it to compete effectively in the flex, office and industrial space markets. The Company believes its personnel is among the most experienced in these real estate markets. The Company's facilities are part of a comprehensive system encompassing standardized procedures and integrated reporting and information networks. The Company believes that the significant operating and financial experience of its executive officers and directors combined with the Company's capital structure, national investment scope, geographic diversity and economies of scale should enable the Company to compete effectively.

Investments in Real Estate Facilities

As of December 31, 2002, the Company owned and operated approximately 14.4 million net rentable square feet compared to 14.8 million net rentable square feet at December 31, 2001. The decrease in net rentable square feet was due to the disposition of facilities that were identified by management as not meeting the Company's ongoing investment strategy.

Summary of Business Model

The Company has a diversified portfolio. It is diversified geographically in seven major markets and has a diversified customer mix by size and industry concentration. The Company believes that this diversification combined with a conservative financing strategy, focus on markets with strong demographics for growth and operating strategy gives the Company a business model that provides strong long-term growth opportunities.

Restrictions on Transactions with Affiliates

The Company's Bylaws provide that the Company may engage in purchase or sale transactions with affiliates only if a transaction with an affiliate is (i) approved by a majority of the Company's independent directors and (ii) fair to the Company based on an independent appraisal or fairness opinion.

Borrowings

As of December 31, 2002, the Company had outstanding mortgage notes payable balances of approximately $20 million and had $50 million outstanding on the Company's term loan. See Notes 5 and 6 to the consolidated financial statements for a summary of the Company's borrowings at December 31, 2002.

In October 2002, the Company extended its unsecured line of credit (the "Credit Facility") with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 1, 2005. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.65% to LIBOR plus 1.25% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.85%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit. The Company had drawn $0 and $100 million on its line of credit at December 31, 2002 and December 31, 2001, respectively.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations (as defined) for any four consecutive quarters. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt; the ratio was 14.9 times at December 31, 2002) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2002.

In February 2002, the Company entered into a seven year, $50 million unsecured term note agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% per annum and is due on February 20, 2009. The Company paid a one-time facility fee of 0.35% or $175,000 for the loan. The Company used the proceeds from the loan to reduce the amount drawn on the Credit Facility. During July, 2002, the Company entered into an interest rate swap transaction which resulted in a fixed rate for the term loan through July, 2004 at 4.46% per annum.

The unsecured note requires the Company to meet covenants that are substantially the same as the covenants in the Credit Facility. The Company was in compliance with the note covenants at December 31, 2002.

The Company has broad powers to borrow in furtherance of the Company's objectives. The Company has incurred in the past, and may incur in the future, both short-term and long-term indebtedness to increase its funds available for investment in real estate, capital expenditures and distributions.

Employees

As of December 31, 2002, the Company employed 131 individuals, primarily personnel engaged in property operations. The Company believes that its relationship with its employees is good and none of the employees are represented by a labor union.

Insurance

The Company believes that its properties are adequately insured. The Company combines its insurance coverage with PSI to reduce costs. Facilities operated by the Company have historically been covered by comprehensive insurance, including fire, earthquake, liability and extended coverage from nationally recognized carriers.

ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating our company and our business.

PSI has significant influence over us.

PSI owns a substantial number of our shares and of the units of our operating partnership: At February 19, 2003, PSI and its affiliates owned 25% of the outstanding shares of our common stock (44% upon conversion of its interest in our operating partnership) and 25% of the outstanding common units of our operating partnership (100% of the common units not owned by us). Also, Ronald L. Havner, Jr., our chairman of the board and chief executive officer, is also vice-chairman, chief executive officer and a director of PSI and Harvey Lenkin, one of our directors, is president and a director of PSI. Consequently, PSI has the ability to significantly influence all matters submitted to a vote of our shareholders, including electing directors, changing our articles of incorporation, dissolving and approving other extraordinary transactions such as mergers, and all matters requiring the consent of the limited partners of the operating partnership. In addition, PSI's ownership may make it more difficult for another party to take over our company without PSI's approval.

Provisions in our organizational documents may prevent changes in control.

Our articles generally prohibit owning more than 7% of our shares: Our articles of incorporation restrict the number of shares that may be owned by any person (other than PSI and certain other specified shareholders), and the partnership agreement of our operating partnership contains an anti-takeover provision. No shareholder (other than PSI and certain other specified shareholders) may own more than 7% of the outstanding shares of our common stock, unless our board of directors waives this limitation. We imposed this limitation to avoid, to the extent possible, a concentration of ownership that might jeopardize our ability to qualify as a real estate investment trust, or REIT. This limitation, however, also makes a change of control much more difficult even if it may be favorable to our public shareholders. These provisions will prevent future takeover attempts not approved by PSI even if a majority of our public shareholders consider it to be in their best interests because they would receive a premium for their shares over the shares' then market value or for other reasons.

Our board can set the terms of certain securities without shareholder approval: Our board of directors is authorized, without shareholder approval, to issue up to 50,000,000 shares of preferred stock and up to 100,000,000 shares of equity stock, in each case in one or more series. Our board has the right to set the terms of each of these series of stock. Consequently, the board could set the terms of a series of stock that could make it difficult (if not impossible) for another party to take over our company even if it might be favorable to our public shareholders. We can also cause our operating partnership to issue additional interests for cash or in exchange for property.

The partnership agreement of our operating partnership restricts mergers: The partnership agreement of our operating partnership provides that generally we may not merge or engage in a similar transaction unless limited partners of our operating partnership are entitled to receive the same proportionate payments as our shareholders. In addition, we have agreed not to merge with another entity unless the merger would have been approved had the limited partners been able to vote together with our shareholders, which has the effect of increasing PSI's influence over us due to PSI's ownership of operating partnership units. These provisions may make it more difficult for us to merge with another entity.

Our operating partnership poses additional risks to us.

Limited partners of our operating partnership, including PSI, have the right to vote on certain changes to the partnership agreement. They may vote in a way that is contrary to the interest of our shareholders. Also, as general partner of our operating partnership, we are required to protect the interests of the limited partners of our operating partnership. The interests of the limited partners and of our shareholders may differ.

We cannot sell certain properties without PSI's approval.

Before 2007, we may not sell 12 specified properties representing 8.8% of the portfolio's square footage without PSI's approval. Since PSI would be taxed on a sale of these properties, the interests of PSI and our other shareholders may differ as to the best time to sell.

Certain institutional investors have special rights.

An institutional investor has the right to (1) demand that the Company cooperate with the investor in an under-written offering of its shares of the Company's common stock and (2) include its shares of the Company's common stock in most public offerings of common stock by the Company. These rights terminate when the aggregate value of common stock owned by the institutional investor is reduced below specified levels.

We would incur adverse tax consequences if we fail to qualify as a REIT.

Our cash flow would be reduced if we fail to qualify as a REIT: While we believe that we have qualified since 1990 to be taxed as a REIT, and will continue to be qualified, we cannot be certain of doing so. To continue to qualify as a REIT, we need to satisfy certain requirements under the federal income tax laws relating to our income, assets, and distributions to shareholders and shareholder base. In this regard, the share ownership limits in our articles of incorporation do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, we would be taxed at regular corporate tax rates on our taxable income unless certain relief provisions apply. Taxes would reduce our cash available for distributions to shareholders or for reinvestment, which could adversely affect us and our shareholders. Also we would not be allowed to elect REIT status for five years after we fail to qualify unless certain relief provisions apply.

Our cash flow would be reduced if our predecessor failed to qualify as a REIT: For us to qualify to be taxed as a REIT, our predecessor, AOPP, also needed to qualify to be taxed as a REIT. We believe AOPP qualified as a REIT beginning in 1997 until its March 1998 merger with us. If it is determined that it did not qualify as a REIT, we could also lose our REIT qualification. Before 1997, our predecessor was a taxable corporation and, to qualify as a REIT, was required to distribute all of its cumulative retained profits before the end of 1996. Because a determination of the precise amount of profits retained by a company over a sustained period of time is very difficult, there is some risk that not all of AOPP's profits were so distributed. While we believe AOPP qualified as a REIT since 1997, we did not obtain an opinion of an outside expert at the time of its merger with us.

We may need to borrow funds to meet our REIT distribution requirements: To qualify as a REIT, we must generally distribute to our shareholders 90% of our taxable income. Our income consists primarily of our share of our operating partnership's income. We intend to make sufficient distributions to qualify as a REIT and otherwise avoid corporate tax. However, differences in timing between income and expenses and the need to make nondeductible expenditures such as capital improvements and principal payments on debt could force us to borrow funds to make necessary shareholder distributions.

Since we buy and operate real estate, we are subject to general real estate investment and operating risks.

Summary of real estate risks: We own and operate commercial properties and are subject to the risks of owning real estate generally and commercial properties in particular. These risks include:

- the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for space and changes in market rental rates;
- how prospective tenants perceive the attractiveness, convenience and safety of our properties;
- our ability to provide adequate management, maintenance and insurance;
- our ability to collect rent from tenants on a timely basis;
- the expense of periodically renovating, repairing and reletting spaces;

- environmental issues;
- compliance with ADA and other government regulations;
- increasing operating costs, including real estate taxes, insurance and utilities, if these increased costs cannot be passed through to tenants;
- changes in tax, real estate and zoning laws;
- increase in new developments;
- tenant bankruptcies;
- sublease space; and
- concentration in non-rated private companies.

Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

If our properties do not generate sufficient income to meet operating expenses, including any debt service, tenant improvements, leasing commissions and other capital expenditures, we may have to borrow additional amounts to cover fixed costs, and we may have to reduce our distributions to shareholders.

During 2001 and 2002, we were affected by the slowdown in economic activity in the United States in most of our primary markets. These effects were exacerbated by the terrorist attacks of September 11, 2001 and the related aftermath. These effects included a decline in occupancy rates and a reduction in market rental rates throughout the portfolio, greater rent concessions, more generous tenant improvement allowances, higher broker commissions, slower than expected lease-up of our development properties, lower interest rates on invested cash and a rise in insurance costs. An extended economic slowdown will put additional downward pressure on occupancies and market rental rates and may lead to pressure for greater rent concessions, more generous tenant improvement allowances and higher broker commissions.

We may encounter significant delays in reletting vacant space, resulting in losses of income: When leases expire, we will incur expenses and we may not be able to release the space on the same terms. Certain leases provide tenants with the right to terminate early if they pay a fee. Our properties as of December 31, 2002 generally have lower vacancy rates than the average for the markets in which they are located, and leases for 35% of our space expire in 2003 or 2004 (leases for 60% of the space occupied by small tenants expire in such years). While we have estimated our cost of renewing leases that expire in 2003, our estimates could be wrong. If we are unable to release space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce our distributions to shareholders.

Tenant defaults and bankruptcies may reduce our cash flow and distributions: We may have difficulty in collecting from tenants in default, particularly if they declare bankruptcy. This could reduce our cash flow and distributions to shareholders.

We may be adversely affected by significant competition among commercial properties: Many other commercial properties compete with our properties for tenants and we expect that new properties will be built in our markets. Also, we compete with other buyers, many of whom are larger than we are, in seeking to acquire commercial properties. Therefore, we may not be able to grow as rapidly as we would like.

We may be adversely affected if casualties to our properties are not covered by insurance: We carry insurance on our properties that we believe is comparable to the insurance carried by other operators for similar properties. However, we could suffer uninsured losses that adversely affect us or even result in loss of properties. We might still remain liable on any mortgage debt related to that property.

The illiquidity of our real estate investments may prevent us from adjusting our portfolio to respond to market changes: There may be delays and difficulties in selling real estate. Therefore, we cannot easily change our portfolio when economic conditions change. Also, tax laws limit a REIT's ability to sell properties held for less than four years.

We may be adversely affected by governmental regulation of our properties: Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and safety codes. If we fail to comply with these requirements, governmental authorities could fine us or courts could award damages against us. We believe our properties comply with all significant legal requirements. However, these requirements could change in a way that would reduce our cash flow and ability to make distributions to shareholders.

Property taxes can increase and cause a decline in yields on investments: Each of our properties is subject to real property taxes. These real property taxes may increase in the future as property tax rates change and as our properties are assessed or reassessed by tax authorities. Such increases could adversely impact the Company's profitability.

We may incur significant environmental remediation costs: Under various federal, state and local environmental laws an owner or operator of real estate interests may have to clean spills or other releases of hazardous or toxic substances on or from a property. Certain environmental laws impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. In some cases, liability may exceed the value of the property. The presence of toxic substances, or the failure to properly remedy any resulting contamination, may make it more difficult for the owner or operators to sell, lease or operate its property or to borrow money using its property as collateral. Future environmental laws may impose additional material liabilities on us.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, were the subject of an environmental investigation conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to a Consent Decree issued by the Oregon Department of Environmental Quality ("ODEQ"). Results of that investigation indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company. There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the investigation, nor has the ODEQ alleged any such contribution.

In January, 2003, the Company signed a Consent Decree resolving all potential liability to the ODEQ with respect to Creekside Corporate Park; pursuant to the Decree, the Company will pay approximately $128,000. A former owner of Creekside Corporate Park has agreed to contribute approximately $58,000 to the settlement. The Company has accrued for these costs.

We may be affected by the Americans with Disabilities Act: The Americans with Disabilities Act of 1990 requires that access and use by disabled persons of all public accommodations and commercial properties be facilitated. Existing commercial properties must be made accessible to disabled persons. While we have not estimated the cost of complying with this act, we do not believe the cost will be material.

Our ability to control our properties may be adversely affected by ownership through partnerships and joint ventures.

We own most of our properties through our operating partnership. Our organizational documents do not limit our ability to invest funds with others in partnerships or joint ventures. During 2001, we entered into a joint venture arrangement that holds property subject to debt. This type of investment may present additional risks. For

example, our partners may have interests that differ from ours or that conflict with ours, or our partners may become bankrupt.

We can change our business policies and increase our level of debt without shareholder approval.

Our board of directors establishes our investment, financing, distribution and other business policies and may change these policies without shareholder approval. Our organizational documents do not limit our level of debt. A change in our policies or an increase in our level of debt could adversely affect our operations or the price of our common stock.

We can issue additional securities without shareholder approval.

We can issue preferred and common stock without shareholder approval. Holders of preferred stock have priority over holders of common stock, and the issuance of additional shares of common stock reduces the interest of existing holders in our company.

Increases in interest rates may adversely affect the market price of our common stock.

One of the factors that influences the market price of our common stock is the annual rate of distributions that we pay on our common stock, as compared with interest rates. Interest rates in late 2001 and 2002 have been at historically low levels. An increase in interest rates may lead purchasers of REIT shares to demand higher annual distribution rates, which could adversely affect the market price of our common stock.

Shares that become available for future sale may adversely affect the market price of our common stock.

Substantial sales of our common stock, or the perception that substantial sales may occur, could adversely affect the market price of our common stock. Certain of our shareholders hold significant numbers of shares of our common stock and, subject to compliance with applicable securities laws, could sell their shares.

We depend on key personnel.

We depend on our executive officers, including Ronald L. Havner, Jr., our chief executive officer and Joseph D. Russell, Jr., our president. The loss of Mr. Havner, Mr. Russell or other executive officers could adversely affect our operations. We maintain no key person insurance on our executive officers.

Terrorist attacks and the possibility of wider armed conflict may have an adverse impact on our business and operating results and could decrease the value of our assets.

Terrorist attacks and other acts of violence or war, such as those that took place on September 11, 2001, could have a material adverse impact on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the United States or its businesses or interests. Attacks or armed conflicts that directly impact one or more of our properties could significantly affect our ability to operate those properties and thereby impair our operating results. Further, we may not have insurance coverage for losses caused by a terrorist attack. Such insurance may not be available, or if it is available and we decide to obtain such terrorist coverage, the cost for the insurance may be significant in relationship to the risk overall. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the United States to enter into a wider armed conflict which could further impact our business and operating results.

President Bush's proposed tax cut could adversely affect the price of our stock.

President Bush has proposed a tax reduction package that would, among other things, substantially reduce or eliminate the taxation of dividends paid by corporations other than REITs. If the double taxation of corporate dividends were to be eliminated or reduced, certain of the relative tax advantage of being a REIT would be

eliminated or reduced, which may have an adverse effect on the price of our stock. This adverse effect may take place prior to the adoption of any tax cut based upon the market's perception of the likelihood of implementation of such a provision.

ITEM 2. PROPERTIES

As of December 31, 2002, the Company owned approximately 10.8 million square feet of "flex" space, 2.3 million square feet of suburban office space and 1.3 million square feet of industrial space concentrated primarily in seven major markets consisting of Southern and Northern California, Southern and Northern Texas, Virginia, Maryland and Oregon. The weighted average occupancy rate at December 31, 2002 was 93.5% and the average rental rate per square foot was $14.47.

The following table contains information about properties owned by the Company as of December 31, 2002 and the weighted average occupancies throughout 2002:

	Rentable Square Footage				Weighted
City	Flex	Office	Industrial	Total	Occupancy
Arizona					
Mesa	78,038	-	-	78,038	94.9%
Phoenix	199,581	-	-	199,581	91.1%
Tempe	291,264	-	-	291,264	92.8%
	568,883	-	-	568,883	92.5%
Northern California					
Hayward	-	-	406,712	406,712	99.4%
Monterey	-	12,003	-	12,003	89.1%
Sacramento	-	366,203	-	366,203	94.8%
San Jose	387,631	-	-	387,631	94.9%
San Ramon	-	52,149	-	52,149	99.4%
Santa Clara	178,132	-	-	178,132	100.0%
So. San Francisco	93,775	-	-	93,775	99.6%
	659,538	430,355	406,712	1,496,605	97.1%
Southern California					
Buena Park	-	-	317,312	317,312	100.0%
Carson	77,255	-	-	77,255	98.5%
Cerritos	-	31,270	394,610	425,880	98.5%
Culver City	146,402	-	-	146,402	92.1%
Irvine	-	160,499	-	160,499	93.9%
Laguna Hills	613,947	-	-	613,947	99.2%
Lake Forest	296,597	-	-	296,597	97.7%
Lakewood	-	52,828	-	52,828	98.2%
Monterey Park	199,056	-	-	199,056	98.5%
San Diego	535,345	-	-	535,345	95.4%
Signal Hill	178,146	-	-	178,146	96.4%
Studio City	22,092	-	-	22,092	100.0%
Torrance	147,220	-	-	147,220	97.1%
	2,216,060	244,597	711,922	3,172,579	97.5%

City	Rentable Square Footage				Weighted Occupancy
	Flex	Office	Industrial	Total	
Maryland					
Beltsville	307,791	-	-	307,791	98.4%
Gaithersburg	-	28,994	-	28,994	97.8%
Landover (2)	254,212	-	-	254,212	86.9%
Largo	149,918	-	-	149,918	94.8%
Rockville	213,853	691,434	-	905,287	92.8%
	925,774	720,428	-	1,646,202	93.2%
Oregon					
Beaverton	1,524,005	346,376	-	1,870,381	90.9%
Milwaukee	101,578	-	-	101,578	88.3%
	1,625,583	346,376	-	1,971,959	90.7%
Tennessee					
Nashville	138,004	-	-	138,004	89.9%
	138,004	-	-	138,004	89.9%
Northern Texas					
Dallas	236,997	-	-	236,997	94.7%
Garland	36,458	-	-	36,458	90.5%
Houston	176,977	131,214	-	308,191	89.3%
Las Colinas (1)	713,526	-	231,217	944,743	92.1%
Mesquite	56,541	-	-	56,541	94.0%
Missouri City	66,000	-	-	66,000	99.7%
Plano	184,809	-	-	184,809	100.0%
Richardson	116,800	-	-	116,800	88.7%
	1,588,108	131,214	231,217	1,950,539	92.8%
Southern Texas					
Austin	832,548	-	-	832,548	90.9%
	832,548	-	-	832,548	90.9%
Virginia					
Alexandria	208,519	-	-	208,519	93.9%
Chantilly (2)	494,618	-	-	494,618	87.4%
Merrifield	302,723	355,127	-	657,850	96.3%
Herndon	193,623	50,750	-	244,373	81.0%
Lorton	246,520	-	-	246,520	99.9%
Springfield	359,742	-	-	359,742	83.2%
Sterling	295,625	-	-	295,625	89.6%
Woodbridge	113,629	-	-	113,629	96.0%
	2,214,999	405,877	-	2,620,876	90.8%
Washington					
Renton	27,912	-	-	27,912	89.4%
	27,912	-	-	27,912	89.4%
Totals - 8 states	10,797,409	2,278,847	1,349,851	14,426,107	93.5%

(1) The Company owns one property that is subject to a ground lease in Las Colinas, Texas.

(2) Three commercial properties serve as collateral to mortgage notes payable. See detailed listing in Schedule III to the financial statements contained herein.

Each of these properties will continue to be used for its current purpose. Competition exists in the market areas in which these properties are located. Barriers to entry are relatively low for competitors with the necessary capital and the Company will be competing for properties and tenants with entities that have greater financial resources than the Company. The Company believes that while the current overall demand for commercial space has softened in 2002 and 2001, there is sufficient demand to maintain healthy occupancy rates.

The Company has risks that tenants will default on leases and declare bankruptcy. Management believes these risks are mitigated through the Company's geographic diversity and diverse tenant base. As of December 31, 2002, tenants occupying less than approximately 300,000 square feet of commercial space had declared bankruptcy and all of the bankrupt tenants were current on their monthly rental payments.

As of and for the year ended December 31, 2002, one of the Company's properties had a book value of more than 10% of the Company's total assets or accounted for more than 10% of its aggregate gross revenues. The property known as Metro Park North is a business park in Rockville, Maryland consisting of 17 buildings (905,000 square feet) including nine office buildings (691,000 square feet) and eight flex-space buildings (214,000 square feet). The property was purchased on December 27, 2001 and has a book value of $122 million representing approximately 11% of the Company's total assets at December 31, 2002.

The following table sets forth information with respect to occupancy and rental rates at Metro Park North for each of the last five years:

	1998	1999	2000	2001	2002
Occupancy rate	81.5%	75.9%	86.9%	93.5%	92.6%
Rental rate per square foot	$15.36	$15.73	$16.91	$18.83	$19.23

The following table sets forth information with respect to tenants occupying ten percent or more of the rentable square footage at Metro Park North:

Tenant Name	Square Feet	Annual Rent per Square Feet	Lease Expiration	Renewal Option	Business Description
State & Local Solutions, Inc.	29,688	$24.96	9/30/05	1, 5-year	Computer Software
Food & Drug Administration	22,713	$28.77	8/3/06	1, 5-year	Government
LSI Logic Corp.	15,786	$25.50	4/30/08	1, 5-year	Software Development
Axcelis Corp.	83,552	$15.59	12/31/07	1, 5-year	High-Tech Manufacturing
Special Integrated Solutions, Inc.	11,215	$15.50	1/31/10	1, 5-year	Software Development
Montgomery County Community TV	12,152	$15.00	6/30/11	1, 5-year	Television Broadcasting
Food & Drug Administration	53,227	$30.48	12/31/07	1, 5-year	Government
First Health Group Corp.	29,502	$19.50	6/30/08	1, 5-year	Insurance
Food & Drug Administration	113,912	$19.07	11/14/05	1, 5-year	Government
Hughes Network Solutions, Inc.	105,665	$23.62	8/31/05	1, 5-year	Telecommunications
Montgomery County Board of Education	38,800	$22.95	10/7/04	1, 5-year	Education

The following table sets forth information with respect to lease expirations at Metro Park North:

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2003	112,705	$2,338,000	13.0%
2004	82,872	2,014,000	11.2%
2005	324,415	7,217,000	40.1%
2006	75,243	1,947,000	10.8%
2007	138,219	3,196,000	17.8%
2008	15,786	430,000	2.4%
2009	6,310	77,000	0.4%
2010	11,215	202,000	1.1%
2011	15,560	323,000	1.8%
2012	-	-	-
Thereafter	13,517	254,000	1.4%
Total	795,842	$17,998,000	100.0%

The following table sets forth information with respect to tax depreciation at Metro Park North:

	Tax Basis	Rate of Depreciation	Method	Life In Years	Accumulated Depreciation
Improvements	$11,991,294	20.0% - 32.0%	MACRS, 200%	5	6,548,708
Improvements	5,817,593	14.3% - 24.5%	MACRS, 200%	7	2,255,802
Improvements	16,591,550	5.0% - 9.5%	MACRS, 150%	15	2,395,480
Buildings	75,392,317	0.1% - 2.5%	MACRS, SL	39	2,003,555
Total	$109,792,754				13,203,545

Portfolio Information

The Company's portfolio services two sets of customers with different characteristics. Approximately 70% of the Company's portfolio serves primarily large tenants. These tenants generally sign longer leases, require higher tenant improvements, are represented by a broker and are better credit tenants. The other 30% of the Company's portfolio serves primarily small tenants with average space requirements of 1,600 square feet and a shorter lease term duration. Tenant improvements are relatively small for these tenants and most leases are done in-house with no lease commissions.. These tenants have lower credit profiles and delinquencies and bankruptcies are more frequent. The following tables set forth the lease expirations for the entire portfolio of properties owned as of December 31, 2002 in addition to bifurcating the lease expirations for properties serving primarily small businesses and those properties serving primarily larger businesses:

Lease Expirations (Entire Portfolio) as of December 31, 2002

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2003	2,635,000	31,350,000	17.1%
2004	2,959,000	33,574,000	18.4%
2005	2,834,000	38,882,000	21.3%
2006	1,871,000	27,951,000	15.3%
2007	1,329,000	18,561,000	10.1%
Thereafter	2,042,000	32,583,000	17.8%
Total	13,670,000	$182,901,000	100.0%

Lease Expirations (Small Tenant Portfolio) as of December 31, 2002

The Company's small tenant portfolio consists of properties with average leases less than 5,000 square feet.

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2003	1,372,000	14,913,000	30.4%
2004	1,223,000	14,845,000	30.2%
2005	693,000	8,789,000	17.9%
2006	271,000	3,632,000	7.4%
2007	326,000	4,198,000	8.5%
Thereafter	186,000	2,756,000	5.6%
Total	4,071,000	$49,133,000	100.0%

Lease Expirations (Large Tenant Portfolio) as of December 31, 2002

The Company's large tenant portfolio consists of properties with average leases greater than or equal to 5,000 square feet.

Year of Lease Expiration	Rentable Square Footage Subject to Expiring Leases	Annual Base Rents Under Expiring Leases	Percentage of Total Annual Base Rents Represented by Expiring Leases
2003	1,263,000	16,437,000	12.3%
2004	1,736,000	18,729,000	14.0%
2005	2,141,000	30,093,000	22.5%
2006	1,600,000	24,319,000	18.2%
2007	1,003,000	14,363,000	10.7%
Thereafter	1,856,000	29,827,000	22.3%
Total	9,599,000	$133,768,000	100.0%

Environmental Matters: Compliance with laws and regulations relating to the protection of the environment, including those regarding the discharge of material into the environment, has not had any material effects upon the capital expenditures, earnings or competitive position of the Company.

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs

that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability, except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, were the subject of an environmental investigation conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to a Consent Decree issued by the Oregon Department of Environmental Quality ("ODEQ"). Results of that investigation indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company. There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the investigation, nor has the ODEQ alleged any such contribution.

In January, 2003, the Company signed a Consent Decree resolving all potential liability to the ODEQ with respect to Creekside Corporate Park; pursuant to the Decree, the Company will pay approximately $128,000. A former owner of Creekside Corporate Park has agreed to contribute approximately $58,000 to the settlement. The Company has accrued these costs.

ITEM 3. LEGAL PROCEEDINGS

In previous filings with the Securities and Exchange Commission, the Company has disclosed litigation involving former Company officers. This litigation has been settled on terms that did not materially affect the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matter to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 2002.

ITEM 4A. EXECUTIVE OFFICERS

The following is a biographical summary of the executive officers of the Company:

Ronald L. Havner, Jr., age 45, has been Chairman and Chief Executive Officer of the Company from March 1998 to the present and President of the Company from March 1998 to September 2002. In November 2002, Mr. Havner became Vice Chairman and Chief Executive Officer of PSI. From December 1996 until March 1998, Mr. Havner was Chairman, President and Chief Executive Officer of AOPP. He was Senior Vice President and Chief Financial Officer of PSI, an affiliated REIT, and Vice President of the Company and certain other REITs affiliated with PSI, until December 1996. Mr. Havner became an officer of PSI in 1986, prior to which he was in the audit practice of Arthur Andersen & Company. He is a member of the National Association of Real Estate Investments Trusts (NAREIT) and the Urban Land Institute (ULI) and a Director of Business Machine Security, Inc. and Mobile Storage Group, Inc. Mr. Havner earned a Bachelor of Arts degree in Economics from the University of California, Los Angeles in 1979 and graduated Summa Cum Laude.

Joseph D. Russell, Jr., age 43, has been President since September 2002. Mr. Russell joined Spieker Partners in 1990 and became an officer of Spieker Properties when it went public as a REIT in 1993. Prior to its merger with Equity Office Properties (EOP) in 2001, Mr. Russell was President of Spieker Properties' Silicon Valley Region. Mr. Russell earned a Bachelor of Science degree from the University of Southern California and a Masters of Business Administration from the Harvard Business School. Prior to entering the commercial real estate business, Mr. Russell spent approximately six years with IBM in various marketing positions.

Jack E. Corrigan, age 42, a certified public accountant, has been Vice President, Chief Financial Officer and Secretary of the Company since June 1998. From February 1991 until June 1998, Mr. Corrigan was a partner of LaRue, Corrigan & McCormick with responsibility for the audit and accounting practice. He was Vice President and Controller of PSI (formerly Storage Equities, Inc.) from 1989 until February 1991. Mr. Corrigan earned a Bachelor of Science degree in Accounting from Loyola Marymount University.

J. Michael Lynch, age 50, has been Vice President-Director of Acquisitions and Development of the Company since June 1998. Mr. Lynch was Vice President of Acquisitions and Development of Nottingham Properties, Inc. from 1995 until May 1998. He has 18 years of real estate experience, primarily in acquisitions and development. From 1988 until 1995, Mr. Lynch was a development project manager for The Parkway Companies. From 1983 until 1988, he was an Assistant Vice President, Real Estate Investment Department of First Wachovia Corporation. Mr. Lynch earned a Bachelor of Arts degree in Economics from Mt. St. Mary's College and a Masters of Architecture from the Virginia Polytechnic Institute.

Stephen S. King, age 46, has been Vice President, Chief Operating Officer of the Company since August 2001. Mr. King joined the Company as Vice President in April 2000 with responsibility for property operations for the Southwest Division. He became an executive officer of the Company in March 2001. From 1998 to April 2000, Mr. King was Vice President of Asset Management for The RREEF Funds with responsibility for over 10 million square feet of industrial property owned in a joint venture with the California Public Employees Retirement System (CalPERS). From 1989 through 1998, Mr. King was Assistant Vice President, Western Division for USAA Real Estate Company. He has over twenty years of development, construction, property management and leasing experience. Mr. King is a licensed California real estate broker and a member of the Institute for Real Estate Management (IREM) and the National Association of Industrial and Office Properties (NAIOP). Mr. King earned a Bachelor of Arts degree in Economics from Texas A&M.

Joseph E. Miller, age 39, was promoted to Vice President, Corporate Controller in December 2001 with responsibilities for financial and operational accounting, reporting, and analysis. Mr. Miller joined the Company in August 2001 as Vice President, Property Operations Controller focusing on operational systems and processes. Previously, Mr. Miller was Corporate Controller for Maguire Partners, a prominent Los Angeles commercial real estate developer, owner, and manager, from May 1997 to August 2001. Prior to joining Maguire Partners, Mr. Miller was an audit manager at Ernst & Young with a focus on real estate clients. Mr. Miller is a Certified Public Accountant and has earned a Bachelor of Science degree in Business Administration from California State University, Northridge, and a Masters of Business Administration from the University of Southern California.

Angelique A. Benschneider, age 40, joined the Company as Vice President in November 2000 with responsibility for property operations for the Midwest Division. Ms. Benschneider became an executive officer of the Company in March 2001. From 1999 to November 2000, Ms. Benschneider was a Senior Asset Manager for Amerishop Real Estate Services, where she was responsible for retail portfolio performance for the Company on the East Coast. From 1996 to 1999, Ms. Benschneider was a General Manager for GIC Real Estate, Inc. and was responsible for the management and leasing of Thanksgiving Tower, a 1,500,000 square foot high rise office tower. Mrs. Benschneider has extensive experience in regional malls, working on the redevelopment of the 2,900,000 square foot King of Prussia Mall in Philadelphia, Pennsylvania. Ms. Benschneider earned a Bachelor of Science degree in Business Administration from the University of North Texas and a Masters of Business Administration from the University of Texas, Dallas.

Maria R. Hawthorne, age 43, has been a Vice President of the Company since June 2001 with responsibility for property operations for the Northern Virginia Division. Mrs. Hawthorne has been with the Company and its predecessors for the past sixteen years. From July 1994 to June 2002, Mrs. Hawthorne was a Regional Manager of the Company. From August 1988 to July 1994, Mrs. Hawthorne was the Director of Leasing and Property Manager for AOPP. Ms. Hawthorne earned a Bachelor of Arts degree in International Relations from Pomona College.

William A. McFaul, age 37, was promoted to Vice President of the Company in December 2001 with responsibility for property operations for the Maryland Division. Mr. McFaul has been with the Company since July 1999. Mr. McFaul became a Regional Manager in January 2001 with responsibility for property operations of the Maryland Region and was a Senior Property Manager from July 1999 until December 2000. Prior to joining the Company, Mr. McFaul worked for The Rouse Company, a national real estate development firm, for ten years holding various positions in leasing and operations. Mr. McFaul earned a Bachelor of Science degree in Business Administration and a Masters of Business Administration from Loyola College in Maryland.

Eileen M. Newkirk, age 54, has been a Vice President of the Company since March 2000 with responsibility for property operations for the Pacific Northwest Division. Ms. Newkirk became an executive officer of the Company in March 2001. From August 1998 to March 2000, Ms. Newkirk was a Regional Manager of the Company. From 1997 to 1998, Ms. Newkirk held the position of United States Facilities Manager for N-Cube, a high tech company based in Foster City, California. From 1994 to 1997, she was a Property Manager for AOPP. Prior to joining AOPP, Ms. Newkirk held a variety of development and operations management positions, including the management of a Class A central business district high-rise. Ms. Newkirk maintains an Oregon real estate license.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

a. Market Price of the Registrant's Common Equity:

The Common Stock of the Company trades on the American Stock Exchange under the symbol PSB. The following table sets forth the high and low sales prices of the Common Stock on the American Stock Exchange for the applicable periods:

		Range		
Year	Quarter	High	Low	Closing Prices
2002	1st	$36.50	$30.70	$34.75
	2nd	$37.34	$34.10	$34.95
	3rd	$35.47	$30.96	$34.00
	4th	$34.30	$29.75	$31.80
2001	1st	$28.10	$26.50	$31.50
	2nd	$29.57	$25.80	$27.70
	3rd	$28.30	$26.00	$28.00
	4th	$32.95	$29.75	$27.15

As of February 12, 2003, there were approximately 688 holders of record of the Common Stock.

b. Dividends

Holders of Common Stock are entitled to receive distributions when, as and if declared by the Company's Board of Directors out of any funds legally available for that purpose. The Company is required to distribute at least 90% of its net taxable ordinary income prior to the filing of the Company's tax return and 85%, subject to certain adjustments, during the calendar year, to maintain its REIT status for federal income tax purposes. It is management's intention to pay distributions of not less than these required amounts.

Distributions paid per share of Common Stock for 2002 and 2001 amounted to $1.16 and $1.31 per year, respectively. Since the second quarter of 1998 and through the fourth quarter of 2000, the Company had declared regular quarterly dividends of $0.25 per common share. In March 2001, the Board of Directors increased the quarterly dividends from $0.25 to $0.29 per common share. In December 2001, the Board of Directors declared a special dividend of $0.15 per common share. In 2002, the Company continued to pay quarterly dividends of $0.29 per common share. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT. Pursuant to restrictions contained in the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

c. Issuance of Unregistered Securities

On October 30, 2002, the Operating Partnership issued 800,000 preferred units with a preferred distribution rate of 7.95%. The Operating Partnership received net proceeds from the sale of these preferred units of approximately $19.5 million. The Operating Partnership sold the preferred units in a private placement in reliance on an exemption from the registration requirements of the Securities Act pursuant to Section 4(2) and Rule 506 of Regulation D promulgated thereunder. The preferred units were issued to a single institutional "accredited investor" within the meaning of Regulation D.

ITEM 6. SELECTED FINANCIAL DATA (1)

The following sets forth selected consolidated and combined financial and operating information on a historical basis for the Company and its predecessors. The following information should be read in conjunction with the consolidated financial statements and notes thereto of the Company included elsewhere in this Form 10-K. Note that historical results from 1998 through 2001 were restated to conform with 2002 presentation for discontinued operations.

	For the Years Ended December 31,				
	2002	2001	2000	1999	1998
Revenues:	(In thousands, except per share data)				
Rental income	$ 197,565	$ 161,609	$ 135,334	$ 114,841	$ 79,211
Facility management fees primarily from affiliates	763	683	539	471	529
Business services	136	353	547	-	-
Interest income	819	2,251	4,076	2,356	1,411
Dividend income	4	17	1,301	459	-
	199,287	164,913	141,797	118,127	81,151
Expenses:					
Cost of operations	52,842	42,543	35,465	30,830	23,552
Cost of facility management	176	152	111	94	77
Cost of business services	462	572	344	-	-
Depreciation and amortization	57,658	39,680	34,037	27,993	17,161
General and administrative	4,663	4,320	3,954	3,153	2,233
Interest expense	5,324	1,715	1,481	3,153	2,361
	121,125	88,982	75,392	65,223	45,384
Equity in income of joint venture	1,978	25	-	-	-
Gain on investment in marketable securities	41	8	7,849	-	-
Income before gain on disposal of real estate, discontinued operations and minority interest	80,181	75,964	74,254	52,904	35,767
Income from discontinued operations	1,296	1,395	3,412	4,656	4,841
Gain on disposition of properties	8,123	-	256	-	-
Income before minority interest and extraordinary item	89,600	77,359	77,922	57,560	40,608
Minority interest in income – preferred units	(17,927)	(14,107)	(12,185)	(4,156)	-
Minority interest in income – common units	(14,243)	(13,382)	(14,556)	(11,954)	(11,208)
Income before extraordinary item	57,430	49,870	51,181	41,450	29,400
Extraordinary item, net of minority interest	-	-	-	(195)	-
Net income	$ 57,430	$ 49,870	$ 51,181	$ 41,255	$ 29,400
Net income allocation:					
Allocable to preferred shareholders	$ 15,412	$ 8,854	$ 5,088	$ 3,406	$ -
Allocable to common shareholders	42,018	41,016	46,093	37,849	29,400
	$ 57,430	$ 49,870	$ 51,181	$ 41,255	$ 29,400
Per Common Share:					
Distribution (1)	$ 1.16	$ 1.31	$ 1.00	$ 1.00	$ 1.10
Net income – Basic	$ 1.95	$ 1.84	$ 1.98	$ 1.60	$ 1.52
Net income – Diluted	$ 1.93	$ 1.83	$ 1.97	$ 1.60	$ 1.51
Weighted average common shares-Basic	21,552	22,350	23,284	23,641	19,361
Weighted average common shares-Diluted	21,743	22,435	23,365	23,709	19,429
Balance Sheet Data:					
Total assets	$ 1,156,802	$ 1,169,955	$ 930,756	$ 903,741	$ 709,414
Total debt	70,279	165,145	30,971	37,066	50,541
Minority interest – preferred units	217,750	197,750	144,750	132,750	-
Minority interest - common units	167,469	162,141	161,728	157,199	153,015
Preferred stock	170,813	121,000	55,000	55,000	-
Common shareholders' equity	$ 493,589	$ 478,731	$ 509,343	$ 500,531	$ 489,905
Other Data:					
Net cash provided by operating activities	$ 135,075	$ 126,677	$ 111,197	$ 88,440	$ 60,228
Net cash (used in) provided by investing activities	5,628	(318,367)	(77,468)	(131,318)	(308,646)
Net cash provided by (used in) financing activities	(98,967)	145,471	(58,654)	111,030	250,602
Funds from operations (2)	$ 103,045	$ 93,568	$ 85,977	$ 76,353	$ 57,430
Square footage owned at end of period	14,426	14,817	12,600	12,359	10,930

(1) In March 2001, the Board of Directors increased the annual distribution to $1.16 per common share. In December 2001, the Board of Directors declared a special distribution of $0.15 per common share. No special dividend was declared in 2002.

(2) Funds from operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP") before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or non-recurring items. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt and capital improvements. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to pay distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs. The Company believes that in order to facilitate a clear understanding of the Company's operating results, FFO should be analyzed in conjunction with net income as presented in the Company's consolidated financial statements included elsewhere in this Form 10-K. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Liquidity and Capital Resources," "Funds from Operations," for a reconciliation of FFO and net income allocable to common shareholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition of PS Business Parks, Inc. (the "Company") should be read in conjunction with the selected financial data and the Company's consolidated financial statements and notes thereto included elsewhere in the Form 10-K.

Forward-Looking Statements: Forward-looking statements are made throughout this Annual Report on Form 10-K. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Item 1A. Risk Factors." In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of the information contained in such forward-looking statements should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Overview

Critical Accounting Policies and Estimates: Our significant accounting policies are described in Note 2 to the condensed consolidated financial statements included in this Form 10-K. We believe our most critical accounting policies relate to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, depreciation, accrual of operating expenses and accruals for contingencies each of which we discuss below.

Revenue Recognition: We recognize revenue in accordance with Staff Accounting Bulletin No. 101 of the Securities and Exchange Commission, Revenue Recognition in Financial Statements (SAB 101), as amended. SAB 101 requires that four basic criteria must be met before revenue can be recognized. The criteria is that persuasive evidence of an arrangement exists, the delivery has occurred or services rendered, the fee is fixed and determinable and collectibility is reasonably assured.

Allowance for Doubtful Accounts: Rental revenue from our tenants is our principal source of revenue. We monitor the collectibility of our receivable balances including the deferred rent receivable on an on-going basis. Based on these reviews, we establish a provision, and maintain an allowance, for doubtful accounts for estimated losses resulting from the possible inability of our tenants to make required rent payments to us. A provision for doubtful accounts is recorded during each period. The allowance for doubtful accounts, which represents the cumulative allowances less write-offs of uncollectible rent, is netted against tenant and other receivables on our consolidated balance sheets. If we incorrectly determine the collectibility of our revenue, the timing and amount of our reported revenue could be affected.

Impairment of Long-Lived Assets: The Company evaluates its assets used in operations, by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying amount. Our long-lived assets consist primarily of our investments in real estate. The fair value of our investments in real estate depends on the future cash flows from operations of the properties. If the estimated future cash flow of the property results in a determination that the fair value is less than our carrying value, an impairment may be recognized if we determine the loss to be permanent. As of December 31, 2002, the Company does not consider any of its long-lived assets to be impaired.

Capitalization of Real Estate Facilities: Real estate facilities are recorded at cost. Costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than 30 months and exceed $5,000 are capitalized and depreciated over the estimated useful life. Buildings and equipment are depreciated on the straight-line method over the estimated useful lives, which are generally 30 and 5 years, respectively. Leasing costs in excess of $1,000 for leases with terms greater than two years are capitalized

and depreciated/amortized over their estimated useful lives. Leasing costs for leases of less than two years or less than $1,000 are expensed as incurred. Interest cost and property taxes incurred during the period of construction of real estate facilities are capitalized. If these costs are not capitalized correctly, the timing of expenses and the recording of real estate assets could be over or understated.

Depreciation: We compute depreciation on our buildings and equipment using the straight-line method based on estimated useful lives of generally 30 and 5 years. A significant portion of the acquisition cost of each property is allocated to building and building components (usually 80-85%). The allocation of the acquisition cost to building and its components and the determination of the useful life are based on management's estimates. If we do not allocate appropriately to building or related components or incorrectly estimate the useful life of our properties, the timing and/or the amount of depreciation expense will be affected. In addition, the net book value of real estate assets could be over or understated. The statement of cash flows, however, would not be affected.

Accruals of Operating Expenses: The Company accrues for property tax expenses, performance bonuses and other operating expenses each quarter based on historical trends and anticipated disbursements. If these estimates are incorrect, the timing of expense recognition will be affected.

Accruals for Contingencies: The Company is exposed to business and legal liability risks with respect to events that may have occurred, but in accordance with generally accepted accounting principles has not accrued for such potential liabilities because the loss is either not probable or not estimable. Future events and the result of pending litigation could result in such potential losses becoming probable and estimable, which could have a material adverse impact on our financial condition of results of operations.

Qualification as a REIT – Income Tax Expense: We believe that we have been organized and operated, and we intend to continue to operate, as a qualifying REIT under the Internal Revenue Code and applicable state laws. A qualifying REIT generally does not pay corporate level income taxes on its taxable income that is distributed to its shareholders, and accordingly, we do not pay or record as an expense income tax on the share of our taxable income that is distributed to shareholders.

Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, we cannot provide any assurance that we actually have satisfied or will satisfy the requirements for taxation as a REIT for any particular taxable year. For any taxable year that we fail or failed to qualify as a REIT and applicable relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income, whether or not we made or make any distributions to our shareholders. Any resulting requirement to pay corporate income tax, including any applicable penalties or interest, could have a material adverse impact on our financial condition or results of operations. Unless entitled to relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which qualifications was lost. There can be no assurance that we would be entitled to any statutory relief.

Effect of Economic Conditions on the Company's Operations: During 2001 and 2002, the Company has been affected by the slowdown in economic activity in the United States in most of its primary markets. These effects were exacerbated by the terrorist attacks of September 11, 2001 and the related aftermath. These effects include a decline in occupancy rates, a reduction in market rental rates throughout the portfolio, increased rent concessions, tenant improvement allowances and lease commissions, slower than expected lease-up of the Company's development properties, increased tenant defaults and the termination of leases pursuant to early termination options.

The reduction in occupancies and market rental rates has been the result of several factors related to general economic conditions. There are more businesses contracting than expanding, more businesses failing than starting-up and general uncertainty for businesses, resulting in slower decision-making and requests for shorter-term leases. There is also more competing vacant space, including substantial amounts of sub-lease space, in many of the Company's markets. Many of the Company's properties have lower vacancy rates than the average rates for the

markets in which they are located; consequently, the Company may have difficulty in maintaining its occupancy rates as leases expire. An extended economic slowdown will put additional downward pressure on occupancies and market rental rates. The economic slowdown and the abundance of space alternatives available to customers has led to pressure for greater rent concessions, more generous tenant improvement allowances and higher broker commissions.

These economic conditions have also resulted in the erosion of tenant credit quality throughout the portfolio. As a result, more tenants are contacting us regarding their economic viability, including those that could be material to our revenue base and more tenants are electing to terminate their leases early under lease termination options. To a certain extent, these economic conditions have affected two large tenants representing a combined 2% of the Company's revenues. Leases with Worldcom and two related entities generate 1% of the Company's revenues. Worldcom's recent bankruptcy may adversely affect the continuity of that revenue. Another large tenant representing approximately 1% of revenues defaulted on its lease obligations in the third quarter of 2002 and has requested a modification of its lease. This tenant is no longer in default on its lease obligations and the Company is currently monitoring the status of this lease closely. Several other of our large tenants have contacted us, requesting early termination of their lease, rent reduction in space under lease, rent deferment or abatement. At this time, the Company cannot anticipate what impact, if any, the ultimate outcome of these discussions will have on our operating results.

The Company's two development properties were 63% leased in the aggregate as of December 31, 2002, but they have not been leased as rapidly as the Company had anticipated. The development properties consist of a 141,000 square foot flex development in Northern Virginia that was 88% leased, and a 97,000 square foot development in the Beaverton submarket of Portland, Oregon that was 26% leased.

Effect of Economic Conditions on the Company's Primary Markets: The Company has concentrated its operations in seven major markets. Each of these markets has been affected by the slowdown in economic activity. The Company's overall view of these markets is summarized below as of December 31, 2002. For purposes of market occupancy statistics, the Company has compiled these statistics using broker reports for these respective markets. These sources are deemed to be reliable by the Company, but there can be no assurance that these reports are accurate.

The Company owns approximately 1.9 million square feet in the Beaverton sub market of Portland, Oregon. Leasing activity slowed dramatically during 2002 and continues to be slow in 2003. On the supply side, the Company does not believe significant new construction starts will occur in 2003. The Company's vacancy rate is 9%.

The Company owns approximately 1.5 million square feet in Northern California with a concentration in South San Francisco, Santa Clara and San Jose. The vacancy rates in these submarkets stand at 7%, 25% and 20%, respectively, or more throughout most of the Bay Area. Market rental rates dropped dramatically in 2002 and continue to decrease. The Company's vacancy rate is 2.9%.

The Company owns approximately 3.2 million square feet in Southern California. This is one of the most stable markets in the country but continues to experience slowing. Vacancy rates have increased throughout Southern California for flex, industrial and office space, ranging from 5% to 25% for office and less than 5% for industrial, depending on sub-markets and product type. The rental rates for the Company's properties have dropped slightly. The Company's vacancy is 2.5%.

The Company owns approximately 0.8 million square feet in Austin, Texas. This market experienced a dramatic increase in office and flex vacancy, both running at 23%, respectively. One half of the office vacancy is due to sub-lease space. Construction deliveries of office and flex space continue to add to the vacancy rate resulting in downward pressure on rental rates. The Company's vacancy rate is 9%.

The Company owns approximately 1.9 million square feet in Northern Texas. The vacancy rate in Las Colinas, where most of the Company's properties are concentrated, has risen to over 20% for office and 13% for industrial flex. Over the 12 months ended December 31, 2002, the number of new properties constructed has

decreased, virtually no new construction has commenced and very little pre-leasing of space has occurred. The Company believes that any such new construction will cause vacancy rates to rise. Leasing activity has slowed overall and sub-leasing is continuing to increase in the Telecom Corridor. The Company's vacancy rate is 7%.

The Company owns approximately 2.6 million square feet in Northern Virginia, where the vacancy rate is 16% as of December 31, 2002. Vacancy rates have risen to over 20% in the sub-markets in the western technology corridor, such as Herndon, Chantilly and Sterling, primarily as a result of the decline in the technology sector. The Company's vacancy rate in is 6%.

The Company owns approximately 1.6 million square feet in Maryland. The Company expects that the business of the GSA, defense contractors and the biotech industry will continue to grow in 2003. With most 2003 construction deliveries pre-leased, the Company expects that the vacancy rate will remain flat or decline. The Company's vacancy rate is approximately 9%.

Growth of the Company's Operations: During 2001 and 2002, the Company focused on maximizing cash flow from its existing core portfolio of properties, seeking to expand its presence in existing markets through strategic acquisitions and developments and strengthening its balance sheet, primarily through the issuance of preferred stock/units. The Company has historically maintained low debt and overall leverage levels, including preferred stock/units, which should give it the flexibility for future growth without the issuance of additional common stock.

During 2002, the Company did not complete any acquisitions. The Company plans to continue to seek to build its presence in existing markets by acquiring high quality facilities in selected markets. The Company targets properties (i) with below market rents which may offer it growth in rental rates above market averages and (ii) which offer the Company the ability to achieve economies of scale resulting in more efficient operations.

In 2002, the Company sold four properties totaling 386,000 square feet. The Company exited the San Antonio, Texas and Overland Park, Kansas markets. In addition, the Company sold a property located in Landover Maryland that no longer met the Company's investment criteria. Net proceeds from the sales were approximately $23.1 million and the Company recognized a net gain of $2.7 million. In addition, the Company recognized $5.4 million of deferred gain from a sale completed in 2001.

Through a joint venture with an institutional investor, the Company holds a 25% equity interest in an industrial park in the City of Industry, submarket of Los Angeles County. Initially the joint venture consisted of 14 buildings totaling 294,000 square feet. During 2002, the joint venture sold eight of the buildings totaling approximately 170,000 square feet. The Company recognized gains of approximately $861,000 on the disposition of these eight buildings. In addition, the Company's interest in cash distributions from the joint venture increased from 25% to 50% as a result of meeting its performance measures. Therefore, the Company recognized additional income of $1,008,000. The gains and the additional income are included in equity in income of joint venture. As of December 31, 2002, the joint venture holds six buildings totaling 124,000 square feet. During January, 2003, five of the remaining six buildings were sold and the Company will recognize gains of approximately $1.0 million as a result of these sales and additional income of approximately $700,000 in 2003. There is currently only one building remaining with approximately 29,000 square feet which is under contract to be sold.

During 2001, the Company added approximately 2.2 million square feet of space to its portfolio at an aggregate cost of approximately $303 million. These acquisitions increased the Company's presence in its existing markets. The Company acquired 658,000 square feet in Northern Virginia for approximately $88 million, 685,000 square feet in Oregon for approximately $88 million and 905,000 square feet in Maryland for approximately $127 million. In addition, the Company completed development of three properties totaling 339,000 square feet in Northern Virginia, Portland and Dallas for approximately $28.5 million. The Company also disposed of a property aggregating 77,000 square feet for approximately $9 million. The Company also formed a joint venture to own and operate an industrial park. This park, consisting of 294,000 square feet, was acquired in December 2000 at a cost of approximately $14.4 million and was contributed to the joint venture at its original cost for a 25% equity interest in the joint venture.

During 2000, the Company added approximately 0.8 million square feet to its portfolio at an aggregate cost of approximately $82 million. The Company acquired 454,000 square feet in Southern California for $40 million, 178,000 square feet in Northern California for $23 million and 210,000 square feet in Northern Virginia for approximately $19 million. In addition, the Company completed development of a property totaling 22,000 square feet in Oregon for approximately $3 million. The Company also disposed of five properties in non-core markets aggregating 627,000 square feet for approximately $23.8 million.

Comparison of 2002 to 2001

Results of Operations: Net income for the year ended December 31, 2002 was $57,430,000 compared to $49,870,000 for the same period in 2001. Net income allocable to common shareholders (net income less preferred stock dividends) for the year ended December 31, 2002 was $42,018,000 compared to $41,016,000 for the same period in 2001. Net income per common share on a diluted basis was $1.93 for the year ended December 31, 2002 compared to $1.83 for the same period in 2001 (based on weighted average diluted common shares outstanding of 21,743,000 and 22,435,000, respectively). The increase was primarily due to gains on disposition of properties. Net income allocable to common shareholders for the year ended December 31, 2002 included recognizing gains on dispositions of properties totaling $8.1 million or $0.28 per share and the Company's share of gains and income related to the disposition of eight buildings in its joint venture of $861,000 or approximately $0.03 per share. Net income per common share, excluding discontinued operations and gains related to dispositions, was $1.61 on a diluted basis for the year ended December 31, 2002 compared to $1.78 diluted for the same period in 2001. The decrease is due primarily to increased depreciation related to acquisitions completed in 2001.

The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the operating results of the properties for the years ended December 31, 2002 and 2001 in addition to other income and expense items affecting income from continuing operations (1):

	Years Ended December 31,		
	2002	2001	Change
Rental income:			
"Same Park" facilities (11.8 million net rentable square feet)	$150,110,000	$148,034,000	1.4%
Other facilities (2.6 million net rentable square feet)	45,057,000	11,671,000	286.1%
Rental income before straight-line rent adjustment	195,167,000	159,705,000	22.2%
Straight line rent adjustment:			
"Same Park" facilities	1,844,000	1,751,000	5.3%
Other facilities	554,000	153,000	262.1%
Total rental income	$197,565,000	$161,609,000	22.2%
Cost of operations (excluding depreciation):			
"Same Park" facilities	$40,277,000	$38,752,000	3.9%
Other facilities	12,565,000	3,791,000	231.4%
Total cost of operations (excluding depreciation)	$52,842,000	$42,543,000	24.2%
Net operating income (rental income less cost of operations):			
"Same Park" facilities (2)	$109,833,000	$109,282,000	0.5%
Other facilities	32,492,000	7,880,000	312.3%
Total net operating income before straight line rent adjustment	142,325,000	117,162,000	21.5%
Straight line rent adjustment	2,398,000	1,904,000	25.9%
Total net operating income	$144,723,000	$119,066,000	21.5%
Income (Loss):			
Facility management fees, net	587,000	531,000	10.5%
Business services, net	(326,000)	(219,000)	(48.9%)
Interest and dividend income	823,000	2,268,000	(63.7%)
Equity in income of joint venture	1,978,000	25,000	7,812.0%
Gain on investment in marketable securities	41,000	8,000	412.5%
Expenses:			
Depreciation and amortization	57,658,000	39,680,000	45.3%
General and administrative	4,663,000	4,320,000	8.0%
Interest expense	5,324,000	1,715,000	210.4%
Income before gain on disposal of real estate, discontinued operations and minority interest	$80,181,000	$75,964,000	5.5%
"Same Park" Gross margin[3]	73.2%	73.8%	(0.6%)
"Same Park" Weighted average for period:			
Occupancy	94.3%	95.8%	(1.5%)
Annualized realized rent per square foot[4]	$13.44	$13.04	3.1%

(1) Net operating income (NOI) is an important measurement in the commercial real estate industry for determining the value of the real estate generating the NOI. The key components of NOI are "rental income" less "cost of operations". The Company breaks out "Same Park" operations to provide information regarding trends for properties the Company has held for the periods being compared. The Company uses NOI in its segment reporting. See Note 14 to the Company's consolidated financial statements included elsewhere herein for a definition of NOI.

(2) See "Supplemental Property Data and Trends" below for a definition of "Same Park" facilities.

(3) Gross margin is computed by dividing property net operating income by rental income.

(4) Realized rent per square foot represents the actual revenues earned per occupied square foot.

Concentration of Portfolio by Region: Rental income and rental income less cost of operations or net operating income prior to depreciation and the straight-line rent adjustment (defined as "NOI" for purposes of the following tables) are summarized for the year ended December 31, 2002 by major geographic region below. Note that the Company excludes the effects of depreciation and straight-line rent adjustment in the calculation of NOI because the table below is designed to illustrate the concentration of value of the portfolio in the respective regions. The effects of depreciation and the straight-line rent adjustment are generally not considered when determining value in the real estate industry. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with generally accepted accounting principles. Below the table of rental income and NOI based on geographical concentration is a reconciliation to the most comparable amounts determined based on generally accepted accounting principles.

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California	3,171,000	22%	$42,320,000	22%	$31,965,000	23%
Northern California	1,495,000	10%	20,873,000	11%	16,148,000	11%
Southern Texas	833,000	6%	8,721,000	4%	5,762,000	4%
Northern Texas	1,951,000	14%	20,909,000	11%	14,297,000	10%
Virginia	2,621,000	18%	39,687,000	20%	28,321,000	20%
Maryland	1,646,000	11%	26,312,000	14%	18,781,000	13%
Oregon	1,973,000	14%	29,733,000	15%	23,346,000	16%
Other	736,000	5%	6,612,000	3%	3,705,000	3%
Subtotal	14,426,000	100%	195,167,000	100%	142,325,000	100%
Add: Straight line rent adjustment			2,398,000		2,398,000	
Less: Depreciation expense			NA		57,356,000	
Total based on generally accepted accounting principles			$197,565,000		$87,367,000	

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties constituting 11.8 million net rentable square feet ("Same Park" facilities). The Company currently has owned and operated them for the comparable periods. These properties do not include properties that have been acquired or sold during 2001 and 2002. The "Same Park" facilities represent approximately 81% of the weighted average square footage of the Company's portfolio for 2002.

The following table summarizes the pre-depreciation historical operating results of the "Same Park" facilities excluding the effects of accounting for rental revenues on a straight-line basis for the years ended December 31, 2002 and 2001. The Company excludes the effect of depreciation and straight-line rent accounting because these non-cash accounts have the effect of smoothing earnings and masking trends in operating results.

Below the table of rental income and NOI on a "Same Park" basis is a reconciliation to the comparable amounts determined based on generally accepted accounting principles.

Region	Revenues 2002	Revenues 2001	Increase	NOI 2002	NOI 2001	Increase
Southern California	$42,486,000	$41,031,000	3.5%	$32,031,000	$31,037,000	3.2%
Northern California	20,818,000	19,417,000	7.2%	16,049,000	14,786,000	8.5%
Austin Texas	8,732,000	9,411,000	(7.2%)	5,767,000	6,280,000	(8.2%)
Northern Texas	18,875,000	19,071,000	(1.0%)	12,747,000	13,042,000	(2.3%)
Virginia	25,043,000	25,620,000	(2.3%)	17,826,000	18,781,000	(5.1%)
Maryland	8,903,000	8,683,000	2.5%	6,740,000	6,691,000	0.7%
Oregon	18,635,000	18,155,000	2.6%	14,990,000	14,772,000	1.5%
Other	6,618,000	6,646,000	(0.4%)	3,683,000	3,893,000	(5.4%)
	150,110,000	148,034,000	1.4%	109,833,000	109,282,000	0.5%
Add: Straight line rent Adjustment	1,844,000	1,751,000	5.3%	1,844,000	1,751,000	5.3%
Less: Depreciation expense	NA	NA	NA	40,328,000	37,429,000	7.7%
Total based on generally accepted accounting principles	$151,954,000	$149,785,000	1.4%	$71,349,000	$73,604,000	(3.1%)

Southern California

This region includes San Diego, Orange County and Los Angeles County. The increase in revenues and NOI are the result of this market being the most stable market in the country during 2002 with a diverse economy that felt only modest effects of the technology slump. Weighted average occupancies have increased from 96.2% in 2001 to 97.5% in 2002. Realized rent per foot have increased 2.2% from $13.43 per foot in 2001 to $13.72 per foot in 2002.

Northern California

This region includes San Jose, San Francisco and Sacramento. The Company benefited from the early renewal of large leases in its Silicon Valley portfolio and relative strength in the Sacramento market. Weighted average occupancies have increased from 96.7% in 2001 to 97.1% in 2002. Realized rent per foot have increased 6.9% from $13.41 per foot in 2001 to $14.33 per foot in 2002.

Austin Texas

This region was among the hardest hit due to the technology slump and the Company is showing the effects of sharply reduced market rental rates, higher vacancies and business failures. Weighted average occupancies have decreased from 94.4% in 2001 to 90.9% in 2002. Realized rent per foot have decreased 3.7% from $11.97 per foot in 2001 to $11.53 per foot in 2002.

Northern Texas

This region includes Dallas and Houston. The Dallas Market has felt the effects of the slowdown in the telecommunications industry, which has been partially offset by the relative strength in the Houston portfolio. Weighted average occupancies have decreased from 93.8% in 2001 to 92.4% in 2002. Realized rent per foot have increased 0.5% from $11.00 per foot in 2001 to $11.05 per foot in 2002.

Virginia

The Virginia region includes all major submarkets surrounding the Washington D.C. metropolitan area. Virginia has been negatively impacted in the Chantilly and Herndon submarkets as a result of the technology and telecommunications industry slowdown. Other submarkets have been positively impacted by increased

federal government spending on defense. The Company's results were negatively impacted in the short-term by the early termination of a 70,000 square foot building that was re-leased to the United States government. The building was vacant for almost nine months as it was being renovated to customer specifications. Weighted average occupancies have decreased from 97.1% in 2001 to 91.2% in 2002. Realized rent per foot have increased 4.1% from $14.48 per foot in 2001 to $15.07 per foot in 2002.

Maryland

The Maryland region from a "Same Park" perspective consists primarily of facilities in Prince Georges County and Montgomery County. These markets were relatively stable. The Company was negatively impacted by the bankruptcies of two large tenants and positively impacted by a lease termination fee in excess of estimated re-leasing costs. Weighted average occupancies have decreased from 99.0% in 2001 to 93.7% in 2002. Realized rent per foot have increased 8.3% from $11.84 per foot in 2001 to $12.82 per foot in 2002.

Oregon

The Oregon region from a "Same Park" perspective consists primarily of two business parks in the Beaverton submarket of Portland. Oregon showed positive results despite being one of the markets hardest hit by the technology slowdown. The full effect of this slowdown will likely take effect in 2003 with expected lease terminations and expirations resulting in significant declines in rental revenue. Weighted average occupancies have decreased from 97.9% in 2001 to 94.5% in 2002. Realized rent per foot have increased 6.4% from $15.57 per foot in 2001 to $16.57 per foot in 2002.

Facility Management Operations: The Company's facility management accounts for a small portion of the Company's net income. During the year ended December 31, 2002, $587,000 in net income was recognized from facility management operations compared to $531,000 for the same period in 2001. Facility management fees have increased due to additional properties brought under management in 2001 including the management of joint venture properties for the full year of 2002 versus a partial year in 2001.

Business Services: Business services include fees from telecommunication service providers. During the year ended December 31, 2002, the Company incurred a net loss of $326,000 from such services compared to net loss of $219,000 recognized for the same period in 2001. Business services revenues have declined due to the bankruptcies of telecommunication service providers such as Darwin Networks, Winstar and Teligent and lower than anticipated acceptance of the program. The Company expects to wind the program down in 2003.

Equity in Income of Joint Venture: On October 23, 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park in the City of Industry submarket of Los Angeles County. The Company recognized income of $1,978,000 and $25,000 in 2002 and 2001, respectively. For 2002, the income consists primarily of gains from dispositions of properties of $861,000 and the recognition of an increase in the Company's interest in the joint venture from 25% to 50% for meeting performance measures of $1,008,000.

Interest Income: Interest income reflects earnings on interest bearing investments. Interest income was $819,000 for the year ended December 31, 2002 compared to $2,251,000 for the same period in 2001. The decrease is attributable to lower interest rates and lower average cash balances. Weighted average interest bearing investments and effective interest rates for the year ended December 31, 2002 were approximately $24 million and 1.9% compared to $53 million and 4.2% for the same period in 2001.

Dividend Income: Dividend income reflects dividends received from marketable securities. Dividend income was $4,000 for the year ended December 31, 2002 compared to $17,000 for the same period in 2001.

Cost of Operations: Cost of operations was $52,842,000 for the year ended December 31, 2002 compared to $42,543,000 for the same period in 2001. The increase is due primarily to the growth in the square footage of the Company's portfolio of properties. Cost of operations as a percentage of rental income increased slightly from 26.3% in 2001 to 26.7% in 2002. Cost of operations for the year ended December 31, 2002 consists primarily of property taxes ($16,762,000), property maintenance ($12,370,000), utilities ($9,697,000) and direct payroll ($8,848,000) as compared to cost of operations for the year ended December 31, 2001 which consisted primarily of

property taxes ($14,241,000), property maintenance ($9,386,000), utilities ($8,046,000) and direct payroll ($6,957,000).

Depreciation and Amortization Expense: Depreciation and amortization expense was $57,658,000 for the year ended December 31, 2002 compared to $39,680,000 for the same period in 2001. The increase is primarily due to depreciation expense on real estate facilities acquired or developed in 2001.

General and Administrative Expense: General and administrative expense was $4,663,000 for the year ended December 31, 2002 compared to $4,320,000 for the same period in 2001. The increase is due to the adoption of the Fair Value Method of accounting for stock options in 2002 resulting in approximately $525,000 of expense related to stock options granted after December 31, 2001. General and administrative expenses consist primarily of expenses which relate to the accounting, finance and executive divisions of the corporate office which primarily consists of payroll expenses. These costs were approximately $1,858,000 and $1,835,000 for the year ended December 31, 2002 and 2001, respectively. Other costs included in general and administrative costs are internal acquisition costs of $639,000 and $587,000 for the year ended December 31, 2002 and 2001, respectively. Legal costs were $188,000 and $176,000 for the years ended December 31, 2002 and 2001, respectively.

Interest Expense: Interest expense was $5,324,000 for the year ended December 31, 2002 compared to $1,715,000 for the same period in 2001. The increase is primarily attributable to higher average debt balances in 2002 due to the Company's $50 million term loan obtained in February, 2002 and the reduction of capitalized interest. Interest expense of $288,000 and $1,091,000 was capitalized as part of building costs associated with properties under development during the years ended December 31, 2002 and 2001, respectively. As of the third quarter of 2002, all developed properties had been shell complete for at least one year. The Company has therefore, discontinued capitalization of interest on these facilities.

Minority Interest in Income: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income was $32,170,000 ($17,927,000 allocated to preferred unitholders and $14,243,000 allocated to common unitholders) for the year ended December 31, 2002 compared to $27,489,000 ($14,107,000 allocated to preferred unitholders and $13,382,000 allocated to common unitholders) for the same period in 2001. The increase in minority interest in income is due primarily to the issuance of preferred operating partnership units during 2001 and 2002 and higher earnings at the operating partnership level.

Gain on Disposition of Real Estate: Certain properties that were identified as not meeting the Company's ongoing investment strategy were sold in 2002. Gain on sale of real estate was $8,123,000 for the year ended December 31, 2002. The gain primarily results from the Company's disposal of a property in San Diego for approximately $9 million in November 2001 and deferral of gain of $5,366,000 which was later recognized in the first quarter of 2002 when the buyer of the property obtained third party financing for the property and paid off most of its note to the Company. In addition, the Company sold a property located in Overland Park, Kansas for approximately $5.3 million in the third quarter of 2002, resulting in a gain of approximately $2.1 million. During the fourth quarter of 2002, the Company sold another property located in Landover, Maryland for approximately $9.6 million generating a gain of approximately $1.7 million. Also in the fourth quarter, the Company sold two properties located in San Antonio, Texas for $9.5 million and a net loss totaling approximately $1.1 million.

Comparison of 2001 to 2000

Results of Operations: Net income for the year ended December 31, 2001 was $49,870,000 compared to $51,181,000 for the same period in 2000. Net income allocable to common shareholders (net income less preferred stock dividends) for the year ended December 31, 2001 was $41,016,000 compared to $46,093,000 for the same period in 2000. Net income per common share on a diluted basis was $1.83 for the year ended December 31, 2001 compared to $1.97 for the same period in 2000 (based on weighted average diluted common shares outstanding of 22,435,000 and 23,365,000, respectively). The decreases in net income and net income per common share reflect a non-recurring realized and unrealized gain on the Company's investment in the common stock of Pacific Gulf Properties, Inc. ("PAG") recognized in 2000.

The Company's property operations account for almost all of the net operating income earned by the Company. The following table presents the operating results of the properties for the years ended December 31, 2001 and 2000 (1). Note that income from properties included in discontinued operations during 2002 are not segregated for presentation of 2001 and 2000 comparisons:

	Years Ended December 31,		
	2001	2000	Change
Rental income:			
"Same Park" facilities (11.4 million net rentable square feet)	$139,239,000	$131,347,000	6.0%
Other facilities (3.4 million net rentable square feet)	25,919,000	10,620,000	144.1%
Rental income before straight-line rent adjustment	165,158,000	141,967,000	16.3%
Straight line rent adjustment:			
"Same Park" facilities	1,605,000	2,039,000	21.3%
Other facilities	299,000	165,000	81.2%
Total rental income	$167,062,000	$144,171,000	15.9%
Cost of operations (excluding depreciation):			
"Same Park" facilities	$36,385,000	$35,061,000	3.8%
Other facilities	8,829,000	4,229,000	108.8%
Total cost of operations (excluding depreciation)	$45,214,000	$39,290,000	15.1%
Net operating income (rental income less cost of operations):			
"Same Park" facilities (2)	$102,854,000	$96,286,000	6.8%
Other facilities	17,090,000	6,391,000	167.4%
Total net operating income before straight line rent adjustment	119,944,000	102,677,000	16.8%
Straight line rent adjustment	1,904,000	2,204,000	(13.6%)
Total net operating income	$121,848,000	$104,881,000	16.2%
Income (Loss):			
Facility management fees, net	531,000	428,000	24.1%
Business services, net	(219,000)	203,000	(207.9%)
Interest and dividend income	2,268,000	5,377,000	(57.8%)
Equity in income of joint venture	25,000	-	100.0%
Gain on investment in marketable securities	8,000	7,849,000	(99.9%)
Expenses:			
Depreciation and amortization	41,067,000	35,637,000	15.2%
General and administrative	4,320,000	3,954,000	9.3%
Interest expense	1,715,000	1,481,000	15.8%
Income before gain on disposal of real estate, discontinued operations and minority interest	$77,359,000	$77,666,000	(0.4%)
"Same Park" Gross margin[3]	73.9%	73.3%	0.6%
"Same Park" Weighted average for period:			
Occupancy	95.6%	96.8%	(1.2%)
Annualized realized rent per square foot[4]	$12.78	$11.90	7.4%

(1) Net operating income (NOI) is an important measurement in the commercial real estate industry for determining the value of the real estate generating the NOI. The key components of NOI are "rental income" less "cost of operations". The Company breaks out "Same Park" operations to provide information regarding trends for properties the Company has held for the periods being compared. The Company uses NOI in its segment reporting. See Note 14 to the Company's consolidated financial statements included elsewhere herein for a definition of NOI.

(2) See "Supplemental Property Data and Trends" below for a definition of "Same Park" facilities.

(3) Gross margin is computed by dividing property net operating income by rental income.

(4) Realized rent per square foot represents the actual revenues earned per occupied square foot.

Concentration of Portfolio by Region: Rental income and rental income less cost of operations or net operating income prior to depreciation (defined as "NOI" for purposes of the following tables) are summarized for the year ended December 31, 2001 by major geographic region below. Note that the Company excludes the effects of depreciation and the straight-line rent adjustment in the calculation of NOI because the table below is designed to illustrate the concentration of value of the portfolio in the respective regions. The effects of depreciation and the straight-line rent adjustment are generally not considered when determining value in the real estate industry. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with generally accepted accounting principles. Below the table of rental income and NOI based on geographical concentration is a reconciliation to the most comparable amounts determined based on generally accepted accounting principles.

Region	Square Footage	Percent of Total	Rental Income	Percent of Total	NOI	Percent of Total
Southern California	3,177,000	22%	$43,550,000	26%	$32,448,000	27%
Northern California	1,495,000	10%	19,353,000	12%	14,653,000	12%
Southern Texas	1,032,000	7%	11,662,000	7%	6,954,000	6%
Northern Texas	1,951,000	13%	19,602,000	12%	13,322,000	11%
Virginia	2,621,000	18%	33,946,000	21%	24,616,000	21%
Maryland	1,771,000	12%	9,997,000	6%	7,704,000	6%
Oregon	1,973,000	13%	19,641,000	12%	15,935,000	13%
Other	797,000	5%	7,407,000	4%	4,312,000	4%
Subtotal	14,817,000	100%	165,158,000	100%	119,944,000	100%
Add: Straight line rent adjustment			1,904,000		1,904,000	
Less: Depreciation expense			NA		40,765,000	
Total based on generally accepted accounting principles			$167,062,000		$81,083,000	

Supplemental Property Data and Trends: In order to evaluate the performance of the Company's overall portfolio, management analyzes the operating performance of a consistent group of properties constituting 11.4 million net rentable square feet ("Same Park" facilities). The Company currently has an ownership interest in these properties and has owned and operated them for the comparable periods. These properties do not include properties that have been acquired or sold during 2000 and 2001. The "Same Park" facilities represent approximately 90% of the weighted average square footage of the Company's portfolio for 2001.

The following tables summarize the "Same Park" operating results prior to depreciation by major geographic region for the years ended December 31, 2001 and 2000. The Company excludes the effect of depreciation and straight-line rent accounting because these non-cash accounts have the effect of smoothing earnings and masking trends in operating results.

Below the table of rental income and NOI on a "Same Park" basis is a reconciliation to the comparable amounts determined based on generally accepted accounting principles.

Region	Revenues 2001	Revenues 2000	Increase	NOI 2001	NOI 2000	Increase
Southern California	$37,275,000	$35,011,000	6.5%	$28,702,000	$26,965,000	6.4%
Northern California	16,697,000	14,719,000	13.4%	12,610,000	10,728,000	17.5%
Southern Texas	9,413,000	8,799,000	7.0%	6,289,000	5,762,000	9.1%
Northern Texas	19,076,000	18,680,000	2.1%	13,058,000	12,855,000	1.6%
Virginia	23,198,000	21,952,000	5.7%	16,868,000	15,986,000	5.5%
Maryland	9,853,000	9,808,000	0.5%	7,598,000	7,398,000	2.7%
Oregon	16,293,000	15,179,000	7.3%	13,343,000	12,260,000	8.8%
Other	7,434,000	7,199,000	3.2%	4,386,000	4,332,000	1.3%
	139,239,000	131,347,000	6.0%	102,854,000	96,286,000	6.8%
Add: Straight line rent Adjustment	1,605,000	2,039,000	(21.3%)	1,605,000	2,039,000	(21.3%)
Less: Depreciation expense	NA	NA	NA	37,429,000	34,187,000	9.5%
Total based on generally accepted accounting principles	$140,844,000	$133,386,000	5.6%	$67,030,000	$64,138,000	4.5%

The increases noted above reflect the performance of the Company's existing markets. Northern California benefited from the expiration of leases with below market rents, as did all other markets to a lesser extent, resulting in revenue and NOI increases in all of our markets.

Facility Management Operations: The Company's facility management accounts for a small portion of the Company's net income. During the year ended December 31, 2001, $531,000 in net income was recognized from facility management operations compared to $428,000 for the same period in 2000. Facility management fees have increased due to the increase in rental rates of the properties managed by the Company and additional properties brought under management during 2000 and 2001.

Business Services: Business services include construction management fees and fees from telecommunication service providers. During the year ended December 31, 2001, the Company incurred a net loss of $219,000 from such services compared to net income of $203,000 recognized for the same period in 2000. Business services revenues have declined due to the bankruptcies of Darwin Networks, Winstar and Teligent. Expenses have increased as a result of a full year of operations in 2001.

Equity in Income of Joint Venture: On October 23, 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park in the City of Industry submarket of Los Angeles County. The Company recognized income of $25,000 in 2001 which represented the Company's 25% equity interest in the joint venture.

Interest Income: Interest income reflects earnings on interest bearing investments. Interest income was $2,251,000 for the year ended December 31, 2001 compared to $4,076,000 for the same period in 2000. The decrease is attributable to lower interest rates and lower average cash balances. Weighted average interest bearing investments and effective interest rates for the year ended December 31, 2001 were approximately $53 million and 4.2% compared to $62 million and 6.5% for the same period in 2000.

Dividend Income: Dividend income reflects dividends received from marketable securities. Dividend income was $17,000 for the year ended December 31, 2001 compared to $1,301,000 for the same period in 2000. Dividend income decreased due to the liquidation of PAG during the year ended December 31, 2001.

Cost of Operations: Cost of operations was $42,543,000 for the year ended December 31, 2001 compared to $35,465,000 for the same period in 2000. The increase is due primarily to the growth in the square footage of the Company's portfolio of properties. Cost of operations as a percentage of rental income decreased from 26.2% in 2000 to 26.3% in 2001 as a result of economies of scale achieved through the acquisition and development of properties in core markets and the disposition of properties outside of the Company's core markets. Cost of operations for the year ended December 31, 2001 consists primarily of property taxes ($13,496,000), property maintenance ($8,911,000), utilities ($7,387,000) and direct payroll ($6,649,000).

Depreciation and Amortization Expense: Depreciation and amortization expense was $39,680,000 for the year ended December 31, 2001 compared to $34,037,000 for the same period in 2000. The increase is due to the acquisition and development of real estate facilities during 2000 and 2001 and depreciation of capitalized expenditures.

General and Administrative Expense: General and administrative expense was $4,320,000 for the year ended December 31, 2001 compared to $3,954,000 for the same period in 2000. The increase is due primarily to the increased size and activities of the Company offset by a decrease in legal costs. Included in general and administrative costs are internal acquisition costs and abandoned transaction costs. Internal acquisition expenses were $587,000 and $553,000 for the year ended December 31, 2001 and 2000, respectively. Legal costs were $176,000 and $837,000 for the years ended December 31, 2001 and 2000, respectively. Legal costs were higher in 2000 as a result of the litigation matters described in Item 3 of this Form 10-K.

Interest Expense: Interest expense was $1,715,000 for the year ended December 31, 2001 compared to $1,481,000 for the same period in 2000. The increase is primarily attributable to increased average debt balances during the period and greater capitalized interest in 2000 as a result of more construction in progress. Interest expense of $1,091,000 and $1,415,000 was capitalized as part of building costs associated with properties under development during the years ended December 31, 2001 and 2000, respectively.

Minority Interest in Income: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership that are not owned by the Company. Minority interest in income was $27,489,000 ($14,107,000 allocated to preferred unitholders and $13,382,000 allocated to common unitholders) for the year ended December 31, 2001 compared to $26,741,000 ($12,185,000 allocated to preferred unitholders and $14,556,000 allocated to common unitholders) for the same period in 2000. The increase in minority interest in income is due primarily to the issuance of preferred operating partnership units during 2000 and 2001 and higher earnings at the operating partnership level, partially offset by a conversion of units to common stock during 2000.

Gain on Investment in Marketable Securities: Gain on investments in marketable securities was $8,000 for the year ended December 31, 2001 compared to $7,849,000 for the same period in 2000. The Company received a liquidating distribution from PAG of approximately $21.8 million and recognized a non-recurring gain of approximately $7.8 million during the year ended December 31, 2000.

Gain on Disposition of Real Estate: Certain properties that were identified as not meeting the Company's ongoing investment strategy were designated for sale in 2000 and 2001. The Company disposed of a property in San Diego with 77,000 square feet for approximately $9 million in November 2001 and deferred a gain of $5,366,000. The Company disposed of five properties aggregating 627,000 square feet for approximately $23.8 million during the year ended December 31, 2000 at a gain of $256,000.

Liquidity and Capital Resources

Net cash provided by operating activities for the years ended December 31, 2002 and 2001 was $134,926,000 and $126,677,000, respectively. Management believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements and debt service requirements, and to maintain the level of distributions to shareholders in addition to providing additional retained cash for future growth, debt repayment and stock repurchases. There are various factors, however, that could cause net cash provided by operating activities to be less than management anticipates, including the factors set forth in Item 1A "Risk Factors". In particular, leases for 35% of the space in the Company's properties expire in 2003 or 2004 (leases for 60% of the space occupied by small tenants expire in such years). If the Company is not able to maintain the occupancy rate of its properties, which in many of the Company's markets is significantly higher than the average for such markets, the Company's retained cash flow will decrease and if there is substantial deterioration in occupancy rates, the Company may have to reduce its level of distributions and/or increase the level of its borrowings.

The Company disposed of four properties in non-core markets for approximately $23 million during the year ended December 31, 2002 at a gain of approximately $2.8 million. The Company disposed of a property in San Diego with 77,000 square feet for approximately $9 million in November 2001 and deferred a gain of $5,366,000 which was recognized in 2002.

The following table summarizes the Company's cash flow from operating activities. The purpose of this table is to reconcile net income to cash flow available for distribution to shareholders. The table further illustrates the remaining amount of funds available for adding to the value of the Company either through investment or repayment of debt after distributions to shareholders.:

	Years Ended December 31,	
	2002	2001
Net income	$57,430,000	$49,870,000
Gain on disposal of properties	(8,123,000)	-
Gain on investment in marketable securities.	(41,000)	(8,000)
Equity income of joint venture	(1,978,000)	(25,000)
Stock option expense	525,000	-
Depreciation and amortization *	58,143,000	41,067,000
Minority interest in income	32,170,000	27,489,000
Change in working capital	(3,200,000)	8,284,000
Net cash provided by operating activities	134,926,000	126,677,000
Maintenance capital expenditures	(6,057,000)	(4,202,000)
Tenant improvements	(10,722,000)	(4,926,000)
Capitalized lease commissions	(5,322,000)	(2,513,000)
Funds available for distribution to shareholders, minority interests, acquisitions and other corporate purposes	112,825,000	115,036,000
Cash distributions to common and preferred shareholders and minority interests	(71,142,000)	(61,559,000)
Excess funds available for principal payments on debt, investments in real estate and other corporate purposes	$41,683,000	$53,477,000

* Includes depreciation of discontinued operations

The Company's capital structure is characterized by a relatively low level of leverage. As of December 31, 2002, the Company had three fixed rate mortgage notes payable totaling $20.3 million, which represented approximately 2% of its total capitalization (based on book value, including minority interest and debt). The

weighted average interest rate for the mortgage notes is approximately 7.50% per annum. The Company estimates that approximately 2% of its properties in terms of value were encumbered. In February 2002, the Company entered into a seven year $50 million term loan agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% and is due on February 20, 2009. The Company paid a one-time fee of 0.35% or $175,000 for the facility. The Company used the proceeds of the loan to reduce the amount drawn on its Credit Facility with Wells Fargo Bank. In July, 2002, the Company entered into an interest rate swap transaction which had the effect of fixing the rate on the term loan for two years at 4.46% per annum.

The following table outlines upcoming cash flows due to contractual commitments in connection with the Company's mortgage notes and term loan which have a weighted average interest rate of 5.73% and an average maturity of 5.7 years. At December 31, 2002, approximate principal maturities of mortgage notes payable are as follows:

2003	$ 586,000
2004	631,000
2005	680,000
2006	7,890,000
2007	5,169,000
Thereafter	55,323,000
	$ 70,279,000

The Company used its short-term borrowing capacity to complete acquisitions totaling $303 million in 2001. The Company borrowed $100 million from its line of credit and $35 million from PSI. The remaining balance was funded from proceeds of the issuance of preferred stock and preferred units in the Operating Partnership totaling $116 million and existing cash of $52 million. During January 2002, the Company issued 2,000,000 depositary shares, each representing 1/1,000 of a share of 8 ¾% Cumulative Preferred Stock, Series F, resulting in net proceeds of $48.3 million. This was used to repay PSI and to increase financial flexibility.

During October, 2002, the Operating Partnership completed a private placement of 800,000 preferred units with a preferred distribution rate of 7.95%. The net proceeds from the placement of preferred units were approximately $19.5 million.

The Company's funding strategy is to use permanent capital, including common and preferred stock, and internally generated retained cash flows. In addition, the Company may sell properties that no longer meet its investment criteria. The Company may finance acquisitions on a temporary basis with borrowings from its Credit Facility. The Company targets a leverage ratio of 40% (defined as debt and preferred equity as a percentage of market capitalization). In addition, the Company targets a ratio of Funds from Operations ("FFO") to combined fixed charges and preferred distributions of 2.5 to 1.0. As of December 31, 2002 and for the year then ended, the leverage ratio was 33% and the FFO to fixed charges and preferred distributions coverage ratio was 3.6 to 1.0.

In October 2002, the Company extended its Credit Facility with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 1, 2005. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.65% to LIBOR plus 1.25% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.85%). In addition, the Company is required to pay an annual commitment fee of up to 0.25% of the borrowing limit. In connection with the extension, the Company paid Wells Fargo Bank a one-time fee of approximately $330,000. As of December 31, 2002, there was no balance outstanding on the Credit Facility.

The Company estimates, assuming 8% interest/distribution rate and 9.5% yield on investments in real estate assets, it could borrow an additional $200 million and maintain a coverage ratio of better than 2.5 times.

Funds from Operations: FFO is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization, minority interest in income, straight line rent adjustments and extraordinary or items. FFO is presented because the Company considers FFO to be a useful measure of the operating performance of a REIT which, together with net income and cash flows provides investors with a basis to evaluate the operating and cash flow performances of a REIT. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt or capital improvements. The Company believes that in order to facilitate a clear understanding of the Company's operating results, FFO should be analyzed in conjunction with net income as presented in the Company's consolidated financial statements included elsewhere in this Form 10-K. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to make distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs.

FFO for the Company is computed as follows:

	Years Ended December 31,	
	2002	2001
Net income allocable to common shareholders	$42,018,000	$41,016,000
Less: Gain on investment in marketable securities	(41,000)	(8,000)
Less: Gain on disposition of real estate	(8,123,000)	-
Less: Equity income from sale of joint venture properties	(861,000)	-
Depreciation and amortization *	58,143,000	41,067,000
Depreciation from joint venture	63,000	15,000
Minority interest in income – common units	14,243,000	13,382,000
Less: Effects of straight line rents	(2,398,000)	(1,904,000)
Consolidated FFO allocable to common shareholders and minority interests	103,044,000	93,568,000
FFO allocated to minority interests – common units	(26,070,000)	(23,018,000)
FFO allocated to common shareholders	$76,974,000	$70,550,000

* Includes depreciation of discontinued operations

Capital Expenditures: During 2002, the Company incurred approximately $22.1 million in recurring capital expenditures or $1.53 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions. This amount was higher than the Company expects to incur on a recurring basis due to more generous tenant improvement allowances and higher broker commissions as a result of soft market conditions. The Company expects these conditions to continue or worsen in 2003 and recurring capital expenditures could reach $2 per foot or $29 million. On a recurring annual basis, the Company expects to incur between $0.90 and $1.40 per square foot in recurring capital expenditures ($13-$20 million based on square footage at December 31, 2002). The Company expects to make $31 million in capital expenditures in 2003. These include $24 million in recurring capital expenditures comprised of maintenance capital expenditures, tenant improvements and capitalized leasing commissions, $1 million to bring acquired properties up to the Company's standards, $2.5 million in first generation tenant improvements and leasing commissions on developed properties and $3.5 million in property renovations.

During 2001, the Company incurred $11.6 million or $0.91 per weighted average square foot in maintenance capital expenditures, tenant improvements and capitalized leasing commissions.

Stock Repurchase: The Company's Board of Directors has authorized the repurchase from time to time of up to 4,500,000 shares of the Company's common stock on the open market or in privately negotiated transactions. In 2002, the Company repurchased 38,800 shares of common stock and no common units in its operating partnership at an aggregate cost of approximately $1.2 million. In addition, the Company may repurchase shares of its preferred stock from time to time on the open market in separately negotiated transactions. For the year ended December 31, 2002, the Company repurchased 6,000 shares of Series D preferred stock with a face value of

$150,000 for $154,619 or $25.77 per share and repurchased 1,500 shares of Series A preferred stock with a face value of $37,500 for $38,266 or $25.51 per share. Any significant reduction in the Company's net cash from operations will limit the Company's ability to repurchase shares or units.

Distributions: The Company has elected and intends to qualify as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. As a REIT, the Company is not taxed on that portion of its taxable income that is distributed to its shareholders provided that at least 90% of its taxable income is distributed to its shareholders prior to filing of its tax return.

Related Party Transactions: At December 31, 2002, PSI owns 25% of the outstanding shares of the Company's common stock (44% upon conversion of its interest in the Operating Partnership) and 25% of the outstanding common units of the Operating Partnership (100% of the common units not owned by the Company). Ronald L. Havner, Jr., the Company's chairman and chief executive officer, is also the vice-chairman, chief executive officer and a director of PSI. The portion of his compensation allocated to the Company is reviewed and approved by the Company's Compensation Committee.

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PSI and affiliated entities for certain administrative services. These costs totaled $337,000 in 2002 and are allocated among PSI and its affiliates in accordance with a methodology intended to fairly allocate those costs. In addition, the Company provides property management services for properties owned by PSI and its affiliates for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. These management fee revenues recognized under management contracts with affiliated parties totaled approximately $561,000 in 2002. In addition, the Company combines its insurance purchasing power with PSI through a captive insurance company controlled by PSI, STOR-Re Mutual Insurance Corporation ("Stor-Re"). Stor-Re provides limited property and liability insurance to the Company at commercially competitive rates. The Company and PSI also utilize unaffiliated insurance carriers to provide property and liability insurance in excess of Stor-Re's limitations.

In June 2002, PSI assigned to the Company PSI's right to acquire from an unaffiliated third party a parcel of undeveloped land. The land is located adjacent to the Company's business park known as Metro Park North in Rockville, Maryland. In consideration for the assignment, the Company reimbursed PSI for all of its costs incurred in connection with the acquisition and development of the land, (approximately $376,000, including $87,000 of land deposits paid by PSI to the unaffilated seller of the land). The land deposits were applied to the $800,000 purchase price for the land.

As of December 31, 2001, the Company had $35 million in short-term borrowings from PSI. The notes bore interest at 3.25% and were repaid as of January 28, 2002.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To limit the Company's exposure to market risk, the Company principally finances its operations and growth with permanent equity capital consisting either of common or preferred stock. At December 31, 2002, the Company's debt as a percentage of shareholders' equity (based on book values) was 10.6%.

The Company's market risk sensitive instruments include mortgage notes payable and the Company's term loan which total $20,279,000 and $50,000,000, respectively at December 31, 2002. All of the Company's mortgage notes payable bear interest at fixed rates. For the term loan, the Company entered into an interest rate swap transaction which had the effect of fixing the rate on the term loan for two years at 4.46% per annum. See Note 6 of the Notes to Consolidated Financial Statements for terms, valuations and approximate principal maturities of the mortgage notes payable as of December 31, 2002. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company at December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 and the report of Ernst & Young LLP, Independent Auditors, thereon and the related financial statement schedule, are included elsewhere herein. Reference is made to the Index to Consolidated Financial Statements and Schedules in Item 15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement to be filed in connection with the annual shareholders' meeting to be held in 2003 (the "Proxy Statement") under the caption "Election of Directors." Information required by this item with respect to executive officers is provided in Item 4A of this report. See "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Compensation" and "Compensation Committee Interlocks and Insider Participation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Election of Directors–Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" and Approval of Adoption of 2003 Stock Option and Incentive Plan – Securities Authorized for Issuance Under Prior Plans."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Compensation Committee Interlocks and Insider Participation–Certain Relationships and Related Transactions."

ITEM 14. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

(b) *Changes in internal controls.* There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Financial Statements and Schedule hereof are filed as part of this report.

2. Financial Statements Schedule

The financial statements schedule listed in the accompanying Index to Financial Statements and Schedule is filed as part of this report.

3. Exhibits

See Index to Exhibits contained herein.

b. Reports on Form 8-K

The Registrant filed a Current Report on Form 8-K dated February 27, 2003 (filed February 28, 2003) pursuant to Item 9, relating to Regulation FD Disclosure.

c. Exhibits

See Index to Exhibits contained herein.

d. Financial Statement Schedules

Not applicable.

PS BUSINESS PARKS, INC.
EXHIBIT INDEX
(Items 14(a)(3) and 14(c))

2.1	Amended and Restated Agreement and Plan of Reorganization among Registrant, American Office Park Properties, Inc. ("AOPP") and Public Storage, Inc. ("PSI") dated as of December 17, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.
3.1	Restated Articles of Incorporation. Filed with Registrant's Registration Statement No. 333-78627 and incorporated herein by reference.
3.2	Certificate of Determination of Preferences of 8 ¾% Series C Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.3	Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.4	Amendment to Certificate of Determination of Preferences of 8 7/8% Series X Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.
3.5	Certificate of Determination of Preferences of 8 7/8% Series Y Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.
3.6	Certificate of Determination of Preferences of 9 1/2% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated May 7, 2001 and incorporated herein by reference.
3.7	Amendment to Certificate of Determination of Preferences of 9 1/2% Series D Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
3.8	Certificate of Determination of Preferences of 9 1/4% Series E Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.
3.9	Certificate of Determination of Preferences of 8 3/4% Series F Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed with Registrant's Current Report on Form 8-K dated January 18, 2002 and incorporated herein by reference.
3.10	Certificate of Determination of Preferences of 7.95% Series F Cumulative Redeemable Preferred Stock of PS Business Parks, Inc. Filed herewith.
3.11	Restated Bylaws. Filed with Registrant's Current Report on Form 8-K dated March 17, 1998 and incorporated herein by reference.
10.1	Amended Management Agreement between Storage Equities, Inc. and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with PSI's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference.
10.2*	Registrant's 1997 Stock Option and Incentive Plan. Filed with Registrant's Registration Statement No. 333-48313 and incorporated herein by reference.

10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.4 Agreement Among Shareholders and Company dated as of December 23, 1997 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.5 Amendment to Agreement Among Shareholders and Company dated as of January 21, 1998 among Acquiport Two Corporation, AOPP, American Office Park Properties, L.P. and PSI. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.6 Non-Competition Agreement dated as of December 23, 1997 among PSI, AOPP, American Office Park Properties, L.P. and Acquiport Two Corporation. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.7** Employment Agreement between AOPP and Ronald L. Havner, Jr. dated as of December 23, 1997. Filed with Registrant's Registration Statement No. 333-45405 and incorporated herein by reference.

10.8** Employment Agreement between Registrant and J. Michael Lynch dated as of May 20, 1998. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.9 Revolving Credit Agreement dated August 6, 1998 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.10 First Amendment to Revolving Credit Agreement dated as of August 19, 1999 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.11 Second Amendment to Revolving Credit Agreement dated as of September 29, 2000 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 and incorporated herein by reference.

10.12 Form of Indemnity Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.13 Cost Sharing and Administrative Services Agreement dated as of November 16, 1995 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.14 Amendment to Cost Sharing and Administrative Services Agreement dated as of January 2, 1997 by and among PSCC, Inc. and the owners listed therein. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.15 Accounts Payable and Payroll Disbursement Services Agreement dated as of January 2, 1997 by and between PSCC, Inc. and American Office Park Properties, L.P. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and incorporated herein by reference.

10.16 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 7/8% Series B Cumulative Redeemable Preferred Units, dated as of April 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.

10.17 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 9 ¼% Series A Cumulative Redeemable Preferred Units, dated as of April 30, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.

10.18 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 ¾% Series C Cumulative Redeemable Preferred Units, dated as of September 3, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.19 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to 8 7/8% Series X Cumulative Redeemable Preferred Units, dated as of September 7, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.20 Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. Relating to Additional 8 7/8% Series X Cumulative Redeemable Preferred Units, dated as of September 23, 1999. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999 and incorporated herein by reference.

10.21 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 8 7/8% Series Y Cumulative Redeemable Preferred Units, dated as of July 12, 2000. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 and incorporated herein by reference.

10.22 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/2% Series D Cumulative Redeemable Preferred Units, dated as of May 10, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 and incorporated herein by reference.

10.23 Amendment No. 1 to Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/2% Series D Cumulative Redeemable Preferred Units, dated as of June 18, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.

10.24 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 9 1/4% Series E Cumulative Redeemable Preferred Units, dated as of September 21, 2001. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 and incorporated herein by reference.

10.25 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 8 3/4% Series F Cumulative Redeemable Preferred Units, dated as of January 18, 2002. Filed with Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.

10.26 Amendment to Agreement of Limited Partnership of PS Business Parks L.P. Relating to 7.95% Series G Cumulative Redeemable Preferred Units, dated as of October 30, 2002. Filed herewith.

10.27 Registration Rights Agreement dated as of March 17, 1998 between Registrant and Acquiport Two Corporation ("Acquiport Registration Rights Agreement"). Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.28 Letter dated May 20, 1998 relating to Acquiport Registration Rights Agreement. Filed with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and incorporated herein by reference.

10.29 Third Amendment to Revolving Credit Agreement dated as of February 15, 2002 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed with Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.

10.30 Term Loan Agreement dated as of February 20, 2002 among PS Business Parks, L.P. and Fleet National Bank, as Agent. Filed with Registrant's Form 10-K for the year ended December 31, 2001 and incorporated herein by reference.

10.31 Fourth Amendment to Revolving Credit Agreement dated as of October 29, 2002 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein. Filed herewith.

12 Statement re: Computation of Ratio of Earnings to Fixed Charges. Filed herewith.

21 List of Subsidiaries

23 Consent of Independent Auditors. Filed herewith.

99.1 Certifcation of CEO and CFO (Section 906 of Sarbanes-Oxley Act of 2002)

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* Compensatory benefit plan.

** Management contract.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 27, 2002

PS BUSINESS PARKS, INC.

BY: /s/ Ronald L. Havner, Jr.
Ronald L. Havner, Jr.
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ronald L. Havner, Jr. Ronald L. Havner, Jr.	President, Chairman of the Board and Chief Executive Officer (principal executive officer)	March 27, 2003
/s/ Jack E. Corrigan Jack E. Corrigan	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 27, 2003
/s/ Harvey Lenkin Harvey Lenkin	Director	March 27, 2003
/s/ Vern O. Curtis Vern O. Curtis	Director	March 27, 2003
/s/ James H. Kropp James H. Kropp	Director	March 27, 2003
/s/ Jack D. Steele Jack D. Steele	Director	March 27, 2003
/s/ Alan K. Pribble Alan K. Pribble	Director	March 27, 2003
/s/ Arthur M. Friedman Arthur M. Friedman	Director	March 27, 2003

PS BUSINESS PARKS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

(Item 15(a)(1) and Item 15(a)(2))

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
PS Business Parks, Inc.

We have audited the accompanying consolidated balance sheets of PS Business Parks, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 2002, 2001 and 2000. Our audits also included the financial statement schedule listed in the Index at Item 15(a). 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PS Business Parks, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for the years ended December 31, 2002, 2001 and 2000 in conformity with accounting principles generally accepted in the United States. 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

Los Angeles, California
February 14, 2003

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 44,812,000	$ 3,076,000
Marketable securities	5,278,000	9,134,000
Real estate facilities, at cost:		
Land	286,301,000	288,792,000
Buildings and equipment	968,473,000	948,899,000
	1,254,774,000	1,237,691,000
Accumulated depreciation	(177,229,000)	(121,609,000)
	1,077,545,000	1,116,082,000
Properties held for disposition, net	-	9,498,000
Land held for development	11,989,000	10,629,000
	1,089,534,000	1,136,209,000
Investment in joint venture	1,057,000	974,000
Rent receivable	1,814,000	745,000
Note receivable	-	7,450,000
Deferred rent receivables	11,507,000	9,601,000
Intangible assets, net	378,000	679,000
Other assets	2,422,000	2,087,000
Total assets	$ 1,156,802,000	$ 1,169,955,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 36,902,000	$ 39,822,000
Deferred gain on property disposition	-	5,366,000
Line of credit	-	100,000,000
Notes payable to affiliate	-	35,000,000
Mortgage notes payable	20,279,000	30,145,000
Unsecured note payable	50,000,000	-
Total liabilities	107,181,000	210,333,000
Minority interest:		
Preferred units	217,750,000	197,750,000
Common units	167,469,000	162,141,000
Shareholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, 6,833 and 4,840 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively	170,813,000	121,000,000
Common stock, $0.01 par value, 100,000,000 shares authorized, 21,531,419 and 21,539,783 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively	215,000	215,000
Paid-in capital	420,372,000	422,161,000
Cumulative net income	232,290,000	174,860,000
Comprehensive income/(loss)	(260,000)	108,000
Cumulative distributions	(159,028,000)	(118,613,000)
Total shareholders' equity	664,402,000	599,731,000
Total liabilities and shareholders' equity	$ 1,156,802,000	$ 1,169,955,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2002	2001	2000
Revenues:			
Rental income	$ 197,565,000	$ 161,609,000	$ 135,334,000
Facility management fees primarily from affiliates	763,000	683,000	539,000
Business services	136,000	353,000	547,000
Interest income	819,000	2,251,000	4,076,000
Dividend income	4,000	17,000	1,301,000
	199,287,000	164,913,000	141,797,000
Expenses:			
Cost of operations	52,842,000	42,543,000	35,465,000
Cost of facility management	176,000	152,000	111,000
Cost of business services	462,000	572,000	344,000
Depreciation and amortization	57,658,000	39,680,000	34,037,000
General and administrative	4,663,000	4,320,000	3,954,000
Interest expense	5,324,000	1,715,000	1,481,000
	121,125,000	88,982,000	75,392,000
Equity in income of joint venture	1,978,000	25,000	-
Gain on investment in marketable securities	41,000	8,000	7,849,000
Income before gain on disposal of real estate, discontinued operations and minority interest	80,181,000	75,964,000	74,254,000
Income from discontinued operations	1,296,000	1,395,000	3,412,000
Gain on disposition of real estate	8,123,000	-	256,000
Income before minority interest	89,600,000	77,359,000	77,922,000
Minority interest in income – preferred units	(17,927,000)	(14,107,000)	(12,185,000)
Minority interest in income – common units	(14,243,000)	(13,382,000)	(14,556,000)
Net income	$ 57,430,000	$ 49,870,000	$ 51,181,000
Net income allocation:			
Allocable to preferred shareholders	$ 15,412,000	$ 8,854,000	$ 5,088,000
Allocable to common shareholders	42,018,000	41,016,000	46,093,000
	$ 57,430,000	$ 49,870,000	$ 51,181,000
Net income per common share – basic:			
Continuing operations	$ 1.62	$ 1.79	$ 1.86
Discontinued operations	0.33	0.05	0.12
Net income	$ 1.95	$ 1.84	$ 1.98
Net income per common share – diluted:			
Continuing operations	$ 1.61	$ 1.78	$ 1.85
Discontinued operations	0.32	0.05	0.12
Net income	$ 1.93	$ 1.83	$ 1.97
Weighted average common shares outstanding:			
Basic	21,552,000	22,350,000	23,284,000
Diluted	21,743,000	22,435,000	23,365,000

See accompanying notes.

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Paid-in	Cumulative	Other Comprehensive	Cumulative	Shareholders'
	Shares	Amount	Shares	Amount	Capital	Net Income	Income/(Loss)	Distributions	Equity
Balances at December 31, 1999	2,200	55,000,000	23,645,461	236,000	478,889,000	73,809,000	-	(52,403,000)	555,531,000
Issuance of common stock:									
Conversion of common OP units	-	-	107,517	1,000	2,530,000	-	-	-	2,531,000
Exercise of stock options	-	-	14,257	-	261,000	-	-	-	261,000
Repurchase of common stock	-	-	(722,600)	(7,000)	(16,634,000)	-	-	-	(16,641,000)
Net income	-	-	-	-	-	51,181,000	-	-	51,181,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(5,088,000)	(5,088,000)
Common stock	-	-	-	-	-	-	-	(23,241,000)	(23,241,000)
Adjustment to reflect minority interest to underlying ownership interest	-		-	-	(191,000)	-	-	-	(191,000)
Balances at December 31, 2000	2,200	55,000,000	23,044,635	230,000	464,855,000	124,990,000	-	(80,732,000)	564,343,000
Issuance of preferred stock, net of costs	2,640	66,000,000	-	-	(1,663,000)	-	-	-	64,337,000
Issuance of common stock:									
Exercise of stock options	-	-	94,259	1,000	1,602,000	-	-	-	1,603,000
Unrealized gain – appreciation in marketable securities	-	-	-	-	-	-	108,000	-	108,000
Repurchase of common stock	-	-	(1,599,111)	(16,000)	(43,910,000)	-	-	-	(43,926,000)
Net income	-	-	-	-	-	49,870,000	-	-	49,870,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(8,854,000)	(8,854,000)
Common stock	-	-	-	-	-	-	-	(29,027,000)	(29,027,000)
Adjustment to reflect minority interest to underlying ownership interest	-		-	-	1,277,000	-	-	-	1,277,000
Balances at December 31, 2001	4,840	121,000,000	21,539,783	215,000	422,161,000	174,860,000	108,000	(118,613,000)	599,731,000
Issuance of preferred stock, net of costs	2,000	50,000,000	-	-	(1,737,000)	-	-	-	48,263,000
Repurchase of preferred stock	(7)	(187,000)	-	-	(5,000)	-	-	-	(192,000)
Issuance of common stock:									
Exercise of stock options	-	-	29,998	-	723,000	-	-	-	723,000
Stock bonus awards	-	-	438	-	15,000	-	-	-	15,000
Stock option expense	-	-	-	-	525,000	-	-	-	525,000
Repurchase of common stock	-	-	(38,800)	-	(1,206,000)	-	-	-	(1,206,000)
Unrealized gain – appreciation in marketable securities	-	-	-	-	-	-	726,000	-	726,000
Unrealized loss on interest rate swap	-	-	-	-	-	-	(1,094,000)	-	(1,094,000)
Net income	-	-	-	-	-	57,430,000	-	-	57,430,000
Comprehensive income	-	-	-	-	-	-	-	-	57,062,000
Distributions paid:									
Preferred stock	-	-	-	-	-	-	-	(15,412,000)	(15,412,000)
Common stock	-	-	-	-	-	-	-	(25,003,000)	(25,003,000)
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(104,000)	-	-	-	(104,000)
Balances at December 31, 2002	6,833	$ 170,813,000	21,531,419	$ 215,000	$ 420,372,000	$ 232,290,000	$ (260,000)	$ (159,028,000)	$ 664,402,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 57,430,000	$ 49,870,000	$ 51,181,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on investment in marketable securities	(41,000)	(8,000)	(7,849,000)
Gain on disposition of properties	(8,123,000)	-	(256,000)
Equity income of joint venture	(1,978,000)	(25,000)	-
Stock option expense and stock bonuses	540,000	-	-
Depreciation and amortization expense	58,143,000	41,067,000	35,637,000
Minority interest in income	32,170,000	27,489,000	26,741,000
(Increase) in receivables and other assets	(3,529,000)	(2,617,000)	(2,004,000)
Increase in accrued and other liabilities	314,000	10,901,000	7,747,000
Total adjustments	77,496,000	76,807,000	60,016,000
Net cash provided by operating activities	134,926,000	126,677,000	111,197,000
Cash flows from investing activities:			
Distribution from Pacific Gulf Properties, Inc.	-	-	21,767,000
Sale of marketable securities	4,823,000	6,401,000	-
Investment in marketable securities	(255,000)	(9,441,000)	(1,720,000)
Acquisition of real estate facilities	(1,156,000)	(301,960,000)	(82,335,000)
Disposition of properties	23,313,000	1,175,000	23,763,000
Distribution from investment in joint venture	1,988,000	13,122,000	-
Proceeds from note receivable	7,450,000	-	-
Capital improvements to real estate facilities	(26,675,000)	(12,760,000)	(19,127,000)
Land held for development and construction in progress	(3,712,000)	(14,904,000)	(19,816,000)
Net cash provided by (used in) investing activities	5,776,000	(318,367,000)	(77,468,000)
Cash flows from financing activities:			
Proceeds from unsecured note payable	50,000,000	-	-
Borrowings (repayment of borrowings) from an affiliate	(35,000,000)	35,000,000	-
Borrowings from (repayments on) line of credit	(100,000,000)	100,000,000	-
Principal payments on mortgage notes payable	(9,866,000)	(826,000)	(6,095,000)
Repurchase of common stock	(1,206,000)	(43,926,000)	(16,641,000)
Repurchase of preferred stock	(192,000)	-	-
Redemption of common operating partnership units	-	(808,000)	
Exercise of stock options	723,000	1,603,000	261,000
Net proceeds from the issuance of preferred stock	48,263,000	64,337,000	-
Net proceeds from the issuance of preferred operating partnership units	19,453,000	51,650,000	11,698,000
Distributions paid to preferred shareholders	(15,412,000)	(8,854,000)	(5,088,000)
Distributions paid to minority interests – preferred units	(17,927,000)	(14,107,000)	(12,185,000)
Distributions paid to common shareholders	(28,234,000)	(29,027,000)	(23,241,000)
Distributions paid to minority interests – common units	(9,568,000)	(9,571,000)	(7,363,000)
Net cash provided by (used in) financing activities	(98,966,000)	145,471,000	(58,654,000)
Net (decrease) increase in cash and cash equivalents	41,736,000	(46,219,000)	(24,925,000)
Cash and cash equivalents at the beginning of the period	3,076,000	49,295,000	74,220,000
Cash and cash equivalents at the end of the period	$ 44,812,000	$ 3,076,000	$ 49,295,000
Supplemental disclosures:			
Interest paid, net of interest capitalized	$ 5,424,000	$ 2,121,000	$ 2,896,000

See accompanying notes.

PS BUSINESS PARKS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2002	2001	2000
Supplemental schedule of non cash investing and financing activities:			
Conversion of common OP units into shares of common stock:			
Minority interest – common units	-	-	(2,531,000)
Common stock	-	-	1,000
Paid-in capital	-	-	2,530,000
Adjustment to reflect minority interest to underlying ownership interest:			
Minority interest – common units	104,000	(1,277,000)	191,000
Paid-in capital	(104,000)	1,277,000	(191,000)
Transfer of developed properties to real estate facilities:			
Real estate facilities	-	(29,479,000)	(3,228,000)
Construction in progress	-	29,479,000	3,228,000
Disposition of property:			
Real estate facilities	-	3,265,000	-
Deferred gain on property disposition	-	5,360,000	-
Note receivable	-	(7,450,000)	-
Investment in joint venture:			
Real estate facilities	-	14,096,000	-
Investment in joint venture	-	(14,096,000)	-
Unrealized gain:			
Marketable securities	(726,000)	(108,000)	-
Other comprehensive income	726,000	108,000	-
Unrealized loss:			
Comprehensive loss on interest rate swap	1,094,000	-	-
Other comprehensive loss	(1,094,000)	-	-

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. Organization and description of business

Organization

PS Business Parks, Inc. ("PSB") was incorporated in the state of California in 1990. As of December 31, 2002, PSB owned approximately 75% of the common partnership units of PS Business Parks, L.P. (the "Operating Partnership" or "OP"). The remaining common partnership units were owned by Public Storage, Inc. ("PSI") and its affiliated entities. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership. PSB and the Operating Partnership are collectively referred to as the "Company."

Description of business

The Company is a fully-integrated, self-advised and self-managed real estate investment trust ("REIT") that acquires, develops, owns and operates commercial properties containing commercial and industrial rental space. As of December 31, 2002, the Company owned and operated approximately 14.4 million net rentable square feet of commercial space located in eight states. The Company also managed approximately 1.4 million net rentable square feet on behalf of PSI and its affiliated entities, third party owners and a joint venture in which the Company held a 25% equity ownership interest (See Note 2).

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of PSB and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from estimates.

Allowance for doubtful accounts

We monitor the collectibility of our receivable balances including the deferred rent receivable on an on-going basis. Based on these reviews, we establish a provision, and maintain an allowance for doubtful accounts for estimated losses resulting from the possible inability of our tenants to make required rent payments to us. A provision for doubtful accounts is recorded during each period. The allowance for doubtful accounts, which represents the cumulative allowances less write-offs of uncollectible rent, is netted against tenant and other receivables on our consolidated balance sheets. Tenant receivables are net of an allowance for uncollectible accounts totaling $150,000 and $400,000 at December 31, 2002 and 2001, respectively.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments are described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgement is required in interpreting market data to

develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133, as amended by SFAS 138). The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value and reflected as income or expense. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

In July 2002, the Operating Partnership entered into an interest rate swap agreement, which is accounted for as a cash flow hedge in order to reduce the impact of changes in interest rates on a portion of its floating rate debt. The agreement, which covers $50,000,000 of debt through July 2004, effectively changes the interest rate exposure from floating rate to a fixed rate of 4.46%. Market gains and losses on the value of the swap are deferred and included in income over the life of the swap or related debt. For the year ended December 31, 2002, the transaction was determined to be an effective hedge. The Operating Partnership records the differences paid or received on the interest rate swap in interest expense as payments are made or received.

Net interest differentials to be paid or received related to these contracts were accrued as incurred or earned. Included in comprehensive income is $1,094,000 in unrealized losses related to the interest rate swap as of December 31, 2002. Upon termination of the contract, the related balance in comprehensive income is recognized into income or expense in the period the contract matures or is terminated.

At December 31, 2002, the Company expects to reclassify $597,000 of net losses on derivative instruments from accumulated comprehensive income to earnings during the next twelve months due to the payment of variable interest associated with the floating rate debt.

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Due to the short period to maturity of the Company's cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents, which consist primarily of short-term investments, including commercial paper, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from a large number of customers. Balances that the Company expects to become uncollectable are reserved for or written off.

Marketable securities and financial instruments

Marketable securities are classified as "available-for-sale" in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Investments are reflected on the balance sheet at fair market value based upon the quoted market price. Included in the Company’s other comprehensive loss at December 31, 2002 of approximately $260,000 are $1,094,000 of unrealized loss from the Company’s interest rate swap contract, offset by an unrealized gain of $834,000 from investments in marketable securities. These items are excluded from earnings and reported in a separate component of shareholders' equity. Dividend income is recognized when earned.

The Company owned approximately one million common shares of Pacific Gulf Properties Inc ("PAG") at December 31, 2000. On December 15, 2000, the Company received a liquidating cash distribution of approximately $21.8 million and recognized a gain of approximately $6.1 million in excess of its original investment. The investment was classified as "trading securities" in accordance with SFAS No. 115. The investment was reflected on the balance sheet at fair market value based upon the quoted market price, resulting in an unrealized gain of $1.7 million which was included in earnings. The Company sold its remaining investment in Pacific Gulf Properties Inc. during the year ended December 31, 2001 and recognized a gain of $15,000.

Real estate facilities

Real estate facilities are recorded at cost. Costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than 30 months and exceed $5,000 are capitalized and depreciated over the estimated useful life. Buildings and equipment are depreciated on the straight-line method over the estimated useful lives, which are generally 30 and 5 years, respectively. Leasing costs in excess of $1,000 for leases with terms greater than two years are capitalized and depreciated/amortized over their estimated useful lives. Leasing costs for leases of less than two years or less than $1,000 are expensed as incurred.

Interest cost and property taxes incurred during the period of construction of real estate facilities are capitalized. The Company capitalized $288,000, $1,091,000 and $1,415,000 of interest expense and $0, $321,000 and $64,000 of property taxes during the years ended December 31, 2002, 2001 and 2000, respectively.

Investment in joint venture

In October 2001, the Company formed a joint venture with an unaffiliated investor to own and operate an industrial park consisting of 14 buildings in the City of Industry submarket of Los Angles County. The park, consisting of 294,000 square feet of industrial space, was acquired by the Company in December 2000 at a cost of approximately $14.4 million. The property was contributed to the joint venture at its original cost. The partnership is capitalized with equity capital consisting of 25% from the Company and 75% from the unaffiliated investor in addition to a mortgage note payable.

During 2002, the joint venture sold eight of the buildings totaling approximately 170,000 square feet. The Company recognized gains of approximately $861,000 on the disposition of these eight buildings. In addition, the Company's interest in cash distributions from the joint venture increased from 25% to 50% as a result of meeting its performance measures. Therefore, the Company recognized additional income of $1,008,000. The gains and the additional income are included in equity in income of joint venture. As of December 31, 2002, the joint venture holds six buildings totaling 124,000 square feet. During January, 2003, five of the remaining six buildings were sold and the Company will recognize gains of approximately $1.0 million as a result of these sales and additional income of approximately $700,000 in 2003. There is currently only one building remaining with approximately 29,000 square feet which is under contract to be sold. The real estate assets within the joint venture are held for disposition as of December 31, 2002.

The Company's investment is accounted for under the equity method in accordance with APB 18, "Equity Method of Accounting for Investments." In accordance with APB 18, the Company's share of the debt is netted against its share of the assets in determining the investment in the joint venture and is not included in the Company's total liabilities. The accounting policies of the joint venture are consistent with the Company's accounting policies.

Summarized below is financial data for the joint venture as of December 31, 2002.

	For the years ended December 31, 2002	2001
Total revenues	$ 1,570,000	$ 329,000
Gain on sale of real estate	3,444,000	-
Cost of operations	477,000	134,000
Depreciation and amortization	251,000	59,000
Interest and other expenses	405,000	46,000
Total expenses	1,133,000	239,000
Net income	$ 3,881,000	$ 90,000

	December 31, 2002	2001
Real estate held for disposition, net	$ 5,992,000	$ 14,779,000
Total assets	6,731,000	15,022,000
Notes payable	2,551,000	7,015,000
Total liabilities	3,908,000	9,391,000
Partners' capital	2,823,000	5,631,000
The Company's investment at December 31	$ 1,057,000	$ 974,000

At December 31, 2002, the joint venture had a variable rate mortgage obligation of approximately $2.5 million bearing interest at 5.45%. After the January dispositions, the mortgage balance was reduced to approximately $50,000.

Intangible assets

Intangible assets consist of property management contracts for properties managed, but not owned, by the Company. The intangible assets are being amortized over seven years. Accumulated amortization was $1,779,000 and $1,477,000 at December 31, 2002 and 2001, respectively.

Evaluation of asset impairment

The Company evaluates its assets used in operations, by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. In addition, the Company evaluates its assets held for disposition. Assets held for disposition are reported at the lower of their carrying value or fair value, less cost of disposition. At December 31, 2002, the Company has determined that there has been no impairment of its assets.

Borrowings from and loans to affiliate

The Company borrowed an aggregate of $35 million from PSI in 2001. The note bore interest at 3.25% (per annum) and was repaid along with accrued interest expense of $76,000 in January 2002. A portion of the proceeds from the Series F preferred stock issuance described in Note 9 was used to repay the note.

Stock-based compensation

Until December 31, 2001, the Company elected to adopt the disclosure requirements of FAS 123 but continued to account for stock-based compensation under APB 25. Effective January 1, 2002, the Company adopted the Fair Value Method of accounting for stock options. As required by the transition requirements of FAS 123, the Company will recognize compensation expense in the income statement using the Fair Value Method only with respect to stock options issued after January 1, 2002, but continue to disclose the pro-forma impact of utilizing the Fair Value Method on stock options issued prior to January 1, 2002. As a result, included in the Company's income statement for the year ended December 31, 2002 is approximately $525,000 in stock option compensation expense related to options granted after January 1, 2002. See note 10.

Revenue and expense recognition

All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Deferred rent receivables represents rental revenue accrued on a straight-line basis in excess of rental revenue currently billed. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenues in the period the applicable costs are incurred.

Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period.

Gains/Losses from sales of real estate

The Company recognizes gains from sales of real estate at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by us with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or using the installment or cost recovery methods as appropriate under the circumstances.

The Company disposed of a property in San Diego for approximately $9 million in November 2001 and deferred a gain of $5,366,000 which was later recognized in 2002 when the buyer of the property obtained third party financing for the property and paid off most of its note to the Company. The note receivable balance remaining as of December 31, 2002 and 2001 was $0 and $7,450,000, respectively.

General and administrative expense

General and administrative expense includes executive compensation, office expense, professional fees, state income taxes, cost of acquisition personnel and other such administrative items.

Related party transactions

Pursuant to a cost sharing and administrative services agreement, the Company shares costs with PSI and affiliated entities for certain administrative services. These costs totaled $337,000, $834,000 and $746,000 in 2002, 2001 and 2000, respectively, and are allocated among PSI and its affiliates in accordance with a methodology intended to fairly allocate those costs. In addition, the Company provides property management

services for properties owned by PSI and its affiliates for a fee of 5% of the gross revenues of such properties in addition to reimbursement of direct costs. These management fee revenues recognized under management contracts with affiliated parties totaled approximately $561,000 in 2002. In addition, the Company combines its insurance purchasing power with PSI through a captive insurance company controlled by PSI, STOR-Re Mutual Insurance Corporation ("Stor-Re"). Stor-Re provides limited property and liability insurance to the Company at commercially competitive rates. The Company and PSI also utilize unaffiliated insurance carriers to provide property and liability insurance in excess of Stor-Re's limitations.

In June 2002, PSI assigned to the Company PSI's right to acquire from an unaffiliated third party a parcel of undeveloped land. The land is located adjacent to the Company's business park known as Metro Park North in Rockville, Maryland. In consideration for the assignment, the Company reimbursed PSI for all of its costs incurred in connection with the acquisition and development of the land, (approximately $376,000, including $87,000 of land deposits paid by PSI to the unaffilated seller of the land). The land deposits were applied to the $800,000 purchase price for the land.

Income taxes

The Company qualified and intends to continue to qualify as a REIT, as defined in Section 856 of the Internal Revenue Code. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders. A REIT must distribute at least 90% of its taxable income each year. In addition, REIT's are subject to a number of organizational and operating requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) based on its taxable income using corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company 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 Company believes it met all organization and operating requirements to maintain its REIT status during 2002, 2001 and 2000 and intends to continue to meet such requirements. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Net income per common share

Per share amounts are computed using the weighted average common shares outstanding. "Diluted" weighted average common shares outstanding include the dilutive effect of stock options under the treasury stock method. "Basic" weighted average common shares outstanding excludes such effect. Earnings per share has been calculated as follows:

	For the Years Ended December 31,		
	2002	2001	2000
Net income allocable to common shareholders	$ 42,018,000	$ 41,016,000	$ 46,093,000
Weighted average common shares outstanding:			
Basic weighted average common shares outstanding	21,552,000	22,350,000	23,284,000
Net effect of dilutive stock options - based on treasury stock method using average market price	191,000	85,000	81,000
Diluted weighted average common shares outstanding	21,743,000	22,435,000	23,365,000
Basic earnings per common share	$ 1.95	$ 1.84	$ 1.98
Diluted earnings per common share	$ 1.93	$ 1.83	$ 1.97

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2001and 2000 in order to conform to the 2002 presentation.

3. Real estate facilities

The activity in real estate facilities for the years ended December 31, 2002, 2001 and 2000 is as follows:

	Land	Buildings	Accumulated Depreciation	Total
Balances at December 31, 1999	$194,140,000	$636,261,000	$(50,976,000)	$779,425,000
Property acquisitions.....	21,517,000	60,818,000	-	82,335,000
Property dispositions.....	(1,995,000)	(9,748,000)	2,471,000	(9,272,000)
Developed projects.....	358,000	2,870,000	-	3,228,000
Capital improvements	-	19,127,000	-	19,127,000
Depreciation expense	-	-	(35,336,000)	(35,336,000)
Balances at December 31, 2000	214,020,000	709,328,000	(83,841,000)	839,507,000
Property acquisitions.....	76,595,000	225,365,000	-	301,960,000
Property dispositions.....	(930,000)	(2,881,000)	546,000	(3,265,000)
Contribution to joint venture.....	(3,432,000)	(11,100,000)	436,000	(14,096,000)
Properties held for disposition ...	(1,860,000)	(9,653,000)	2,015,000	(9,498,000)
Developed projects.....	4,399,000	25,080,000	-	29,479,000
Capital improvements	-	12,760,000	-	12,760,000
Depreciation expense	-	-	(40,765,000)	(40,765,000)
Balances at December 31, 2001	288,792,000	948,899,000	(121,609,000)	1,116,082,000
Property dispositions.....	(2,499,000)	(10,668,000)	1,736,000	(11,431,000)
Developed projects.....	8,000	3,704,000	-	3,712,000
Capital improvements	-	26,538,000	-	26,538,000
Depreciation expense	-	-	(57,356,000)	(57,356,000)
Balances at December 31, 2002	$ 286,301,000	$ 968,473,000	$(177,229,000)	$1,077,545,000

The unaudited basis of real estate facilities for federal income tax purposes was approximately $1 billion at December 31, 2002. Approximately 2% of real estate is encumbered by mortgage debt.

During the years ended December 31, 2002, 2001 and 2000, the Company incurred approximately $3.7 million, $14.9 million, and $19.8 million in development costs, respectively. In 2000, the Company completed a 22,000 square foot development in Beaverton, Oregon at a cost of approximately $3.2 million. In 2001, the Company completed a 97,000 square foot development in Beaverton, Oregon, a 141,000 square foot development in Chantilly, Virginia and a 102,000 square foot development in Dallas, Texas at an aggregate cost of approximately $28.5 million. There were no new development properties in 2002, although the Company continued to incur first generation leasing costs on three of its developments in 2002.

The Company disposed of a property in San Diego for approximately $9 million in November 2001 and deferred a gain of approximately $5.3 million which was later recognized in the first quarter of 2002 when the buyer of the property obtained third party financing for the property and paid off most of its note to the Company.

During 2001, the Company identified two properties in San Antonio, Texas totaling 199,000 square feet that did not meet its ongoing investment strategy. During 2002, the Company sold both of these properties for net

proceeds of $8.5 million. The Company recognized a net loss on the sale of the two properties of approximately $1.1 million. During 2002, the Company identified two additional properties that did not meet the Company's ongoing investment criteria. One property located in Overland Park, Kansas with 62,000 square feet was sold for $5.3 million resulting in net proceeds of $5.1 and a gain of approximately $2.1 million. The second property located in Landover Maryland with 125,000 square feet, was sold for $9.6 million generating net proceeds of $9.5 million and a gain of approximately $1.7 million. The disposition properties consisted of both flex and office properties.

The following summarizes the condensed results of operations for discontinued operations as of December 31, 2002, which are also included in the consolidated statements of income:

	For the Years Ended December 31,		
	2002	2001	2000
Rental income	$ 3,372,000	$ 5,453,000	$ 8,837,000
Cost of operations	(1,590,000)	(2,671,000)	(3,825,000)
Depreciation	(486,000)	(1,387,000)	(1,600,000)
Net operating income	$ 1,296,000	$ 1,395,000	$ 3,412,000

4. Leasing activity

The Company leases space in its real estate facilities to tenants primarily under non-cancelable leases generally ranging from one to ten years. Future minimum rental revenues excluding recovery of expenses as of December 31, 2002 under these leases are as follows:

2003	$ 162,737,000
2004	131,534,000
2005	97,241,000
2006	62,971,000
2007	41,299,000
Thereafter	80,310,000
	$ 576,092,000

In addition to minimum rental payments, tenants pay reimbursements for their pro rata share of specified operating expenses, which amount to $26,216,000, $22,764,000, and $19,265,000 for the years ended December 31, 2002, 2001 and 2000, respectively. These amounts are included as rental income and cost of operations in the accompanying consolidated statements of income. Leases constituting approximately 5% of the Company's rental revenue are subject to termination options with leases for approximately 3% of the leased square footage having termination options exercisable through December 31, 2003. In general, these leases provide for termination payments should the termination options be exercised. The above table is prepared assuming such options are not exercised.

Two of the Company's top ten tenants representing approximately 2% of future minimum rental revenues have been significantly affected by the downturn in the high-tech and telecommunications industries. One tenant is currently in bankruptcy. Neither tenant was in default on its lease as of December 31, 2002.

5. Bank Loans

In October 2002, the Company extended its unsecured line of credit (the "Credit Facility") with Wells Fargo Bank. The Credit Facility has a borrowing limit of $100 million and an expiration date of August 1, 2005. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.65% to LIBOR plus 1.25% depending on the Company's credit ratings and coverage ratios, as defined (currently LIBOR plus 0.85%). In addition, the Company is required to pay an annual commitment fee of 0.25% of the borrowing limit. In connection with the extension, the Company paid Wells Fargo Bank a one-time fee of approximately $330,000. The Company had drawn $0 and $100 million on its line of credit at December 31, 2002 and 2001, respectively.

The Credit Facility requires the Company to meet certain covenants including (i) maintain a balance sheet leverage ratio (as defined) of less than 0.50 to 1.00, (ii) maintain interest and fixed charge coverage ratios (as defined) of not less than 2.25 to 1.00 and 1.75 to 1.00, respectively, (iii) maintain a minimum total shareholders' equity (as defined) and (iv) limit distributions to 95% of funds from operations (as defined) for any four consecutive quarters. In addition, the Company is limited in its ability to incur additional borrowings (the Company is required to maintain unencumbered assets with an aggregate book value equal to or greater than two times the Company's unsecured recourse debt) or sell assets. The Company was in compliance with the covenants of the Credit Facility at December 31, 2002.

In February 2002, the Company entered into a seven year $50 million unsecured term note agreement with Fleet National Bank. The note bears interest at LIBOR plus 1.45% per annum and is due on February 20, 2009. The Company paid a one-time facility fee of 0.35% or $175,000 for the loan. The Company used the proceeds from the loan to reduce the amount drawn on the Credit Facility. During July 2002, the Company entered into an interest rate swap transaction which resulted in a fixed rate for the term loan through July 2004 at 4.46% per annum.

The unsecured note requires the Company to meet covenants that are substantially the same as the covenants in the Credit Facility. The Company was in compliance with the note covenants at December 31, 2002.

6. Mortgage notes payable

Mortgage notes consist of the following:

	December 31, 2002	December 31, 2001
7.050% mortgage note, secured by one commercial property with an approximate carrying amount of $17,380,000, principal and interest payable monthly, due May 2006	$ 8,164,000	$ 8,374,000
8.190% mortgage note, secured by one commercial property with an approximate carrying amount of $11,342,000, principal and interest payable monthly, due March 2007	6,067,000	6,283,000
7.290% mortgage note, secured by one commercial property with an approximate carrying amount of $7,551,000, principal and interest payable monthly, due February 2009	6,048,000	6,164,000
7.280% mortgage note, secured by two commercial properties with approximate carrying amounts totaling $7,282,000, principal and interest paid in December, 2002	-	4,059,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $4,774,000, principal and interest paid in December, 2002	-	1,930,000
8.500% mortgage note, secured by one commercial property with an approximate carrying amount of $3,536,000, principal and interest paid in July, 2002	-	1,797,000
8.000% mortgage note, secured by one commercial property with an approximate carrying amount of $3,798,000, principal and interest paid in December, 2002	-	1,538,000
	$20,279,000	$30,145,000

The mortgage notes have a weighted average interest rate of 7.46% and an average maturity of 4.5 years. At December 31, 2002, approximate principal maturities of mortgage notes payable are as follows:

2003	$ 586,000
2004	631,000
2005	680,000
2006	7,890,000
2007	5,169,000
Thereafter	5,323,000
	$ 20,279,000

7. Minority interests

Common partnership units

The Company presents the accounts of PSB and the Operating Partnership on a consolidated basis. Ownership interests in the Operating Partnership that can be redeemed for common stock, other than PSB's interest, are classified as minority interest – common units in the consolidated financial statements. Minority interest in income common units consists of the minority interests' share of the consolidated operating results after allocation to preferred units and shares.

Beginning one year from the date of admission as a limited partner (common units) and subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of its partnership interest.

A limited partner (common units) that exercises its redemption right will receive cash from the Operating Partnership in an amount equal to the market value (as defined in the Operating Partnership Agreement) of the partnership interests redeemed. In lieu of the Operating Partnership redeeming the partner for cash, PSB, as general partner, has the right to elect to acquire the partnership interest directly from a limited partner exercising its redemption right, in exchange for cash in the amount specified above or by issuance of one share of PSB common stock for each unit of limited partnership interest redeemed.

A limited partner cannot exercise its redemption right if delivery of shares of PSB common stock would be prohibited under the applicable articles of incorporation, or if the general partner believes that there is a risk that delivery of shares of common stock would cause the general partner to no longer qualify as a REIT, would cause a violation of the applicable securities laws, or would result in the Operating Partnership no longer being treated as a partnership for federal income tax purposes.

At December 31, 2002, there were 7,305,355 common units owned by PSI and affiliated entities and which are accounted for as minority interests. On a fully converted basis, assuming all 7,305,355 minority interest common units were converted into shares of common stock of PSB at December 31, 2002, the minority interest units would convert into approximately 25% of the common shares outstanding. At the end of each reporting period, the Company determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon the ownership interest and an adjustment is made to the minority interest, with a corresponding adjustment to paid-in capital, to reflect the minority interests' equity in the Company.

Preferred partnership units

Through the Operating Partnership, the Company has issued the following preferred units in separate private placement transactions:

Date of Issuance	Call Date	Series	Number of Units	Face Value	Preferred Distribution Rate
April, 1999	April, 2004	Series B	510	$ 12,750,000	8 7/8%
September, 1999	September, 2004	Series C	3,200	80,000,000	8 3/4%
September, 2001	September, 2006	Series E	2,120	53,000,000	9 1/4%
October, 2002	October, 2007	Series	800	20,000,000	7 19/20%
September, 1999	September, 2004	Series	1,600	40,000,000	8 7/8%
July, 2000	July, 2005	Series	480	12,000,000	8 7/8%
			8,710	$ 217,750,000	

The Operating Partnership has the right to redeem preferred units on or after the fifth anniversary of the applicable issuance date at the original capital contribution plus the cumulative priority return, as defined, to the redemption date to the extent not previously distributed. The preferred units are exchangeable for Cumulative Redeemable Preferred Stock of the respective series of PSB on or after the tenth anniversary of the date of issuance at the option of the Operating Partnership or a majority of the holders of the respective preferred units. The Cumulative Redeemable Preferred Stock will have the same distribution rate and par value as the corresponding preferred units and will otherwise have equivalent terms to the other series of preferred stock described in Note 9.

8. Property management contracts

The Operating Partnership manages industrial, office and retail facilities for PSI and affiliated entities. These facilities, all located in the United States, operate under the "Public Storage" or "PS Business Parks" names. In addition, the Operating Partnership manages properties for third party owners and a joint venture.

The property management contracts provide for compensation of a percentage of the gross revenues of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers and leasing, billing and maintenance personnel.

The property management contract with PSI is for a seven year term with the term being automatically extended one year on each anniversary. At any time, either party may notify the other that the contract is not to be extended, in which case the contract will expire on the first anniversary of its then scheduled expiration date. For PSI affiliate owned properties, PSI can cancel the property management contract upon 60 days notice while the Operating Partnership can cancel upon seven years notice. Management fee revenues under these contracts totaled $561,000, $562,000 and $500,000 for the years ended December 31, 2002, 2001 and 2000 respectively. Management fee revenue for unaffiliated third parties and the joint venture were $202,000, $121,000 and $39,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

9. Shareholders' equity

Preferred stock

As of December 31, 2002 and December 31, 2001, the Company had the following series of preferred stock outstanding:

Date of Issuance	Call Date	Series	Dividend	December 31, 2002 Shares Outstanding	December 31, 2002 Carrying Amount	December 31, 2001 Shares Outstanding	December 31, 2001 Carrying Amount
April, 1999	April, 2004	Series	9.250%	2,199	$ 54,962,500	2,200	$ 55,000,000
May, 2001	May, 2006	Series	9.500%	2,634	$ 65,850,000	2,640	$ 66,000,000
January, 2002	January, 2007	Series F	8.750%	2,000	50,000,000	-	-
				6,833	$ 170,812,500	4,840	$ 121,000,000

Holders of the Company's preferred stock will not be entitled to vote on most matters, except under certain conditions. In the event of a cumulative arrearage equal to six quarterly dividends, the holders of the preferred stock will have the right to elect two additional members to serve on the Company's Board of Directors until all events of default have been cured. At December 31, 2002, there were no dividends in arrears.

The Company may re-purchase shares of its preferred stock from time to time on the open market in separately negotiated transactions. For the year ended December 31, 2002, the Company repurchased 6,000 shares of Series D preferred stock with a face value of $150,000 for $154,619 or $25.77 per share and repurchased 1,500 shares of Series A preferred stock with a face value of $37,500 for $38,266 or $25.51 per share.

The Company paid $15,412,000, $8,854,000 and $5,088,000 in distributions to its preferred shareholders for the years ended December 31, 2002, 2001 and 2000, respectively.

Common Stock

The Company's Board of Directors has authorized the repurchase from time to time of up to 4,500,000 shares of the Company's common stock on the open market or in privately negotiated transactions. In 2002, the Company repurchased 38,800 shares of common stock and no common units in its operating partnership at an aggregate cost of approximately $1.2 million (average cost of $31.04 per share/unit). In addition, during January, 2003, the Company repurchased 161,200 shares at an aggregate cost of $5.1 million. Since the inception of the program (March 2000), the Company has repurchased an aggregate total of 2,521,711 shares of common stock and 30,484 common units in its Operating Partnership at an aggregate cost of approximately $67.7 million (average cost of $26.52 per share/unit).

The Company paid $28,234,000 ($1.16 per common share), $29,027,000 ($1.31 per common share) and $23,241,000 ($1.00 per common share) in distributions to its common shareholders for the years ended December 31, 2002, 2001 and 2000, respectively. Pursuant to restrictions imposed by the Credit Facility, distributions may not exceed 95% of funds from operations, as defined.

Equity stock

In addition to common and preferred stock, the Company is authorized to issue 100,000,000 shares of Equity Stock. The Articles of Incorporation provide that the Equity Stock may be issued from time to time in one or more series and give the Board of Directors broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of Equity Stock.

10. Stock options

PSB has a 1997 Stock Option and Incentive Plan (the "Plan"). Under the Plan, PSB has granted non-qualified options to certain directors, officers and key employees to purchase shares of PSB's common stock at a price no less than the fair market value of the common stock at the date of grant. Generally, options under the Plan vest over a three-year period from the date of grant at the rate of one third per year and expire ten years after the date of grant. The remaining weighted average contractual lives were 8.2, 8.6 and 8.4 years, respectively, at December 31, 2002, 2001 and 2000.

At December 31, 2002, there were 1,500,000 options authorized to grant. Information with respect to the Plan is as follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 1999	482,358	$16.69 – $25.00	$20.28
Granted	305,500	20.50 – 26.95	25.74
Exercised	(13,237)	16.69 – 25.00	17.72
Forfeited	(135,939)	16.69 – 25.00	21.05
Outstanding at December 31, 2000	638,682	$16.69 – $26.95	$22.78
Granted	322,500	26.40 – 29.19	26.96
Exercised	(94,259)	16.69 – 26.21	17.00
Forfeited	(34,001)	25.00 – 26.95	25.42
Outstanding at December 31, 2001	832,922	$16.69 – $29.19	$24.94
Granted	300,000	31.11 – 36.01	33.47
Exercised	(29,998)	16.69 – 26.71	23.07
Forfeited	(64,168)	23.37 – 26.71	26.01
Outstanding at December 31, 2002	1,038,756	$16.69 – $36.01	$27.36
Exercisable at:			
December 31, 2000	278,340	$16.69 – $25.00	$19.32
December 31, 2001	310,577	$16.69 – $26.80	$22.37
December 31, 2002	120,588	$16.69 – $22.88	$18.48
	346,150	$23.50 – $31.11	$25.72

Until December 31, 2001, the Company elected to adopt the disclosure requirements of FAS 123 but continued to account for stock-based compensation under APB 25. Effective January 1, 2002, the Company adopted the Fair Value Method of accounting for stock options. As required by the transition requirements of FAS 123 as amended by FAS 148 (see note 11), the Company will recognize compensation expense in the income statement using the Fair Value Method only with respect to stock options issued after January 1, 2002, but continue to disclose the pro-forma impact of utilizing the Fair Value Method on stock options issued prior to January 1, 2002. As a result, included in the Company's income statement for the year ended December 31,

2002 is approximately $525,000 in stock option compensation expense related to options granted after January 1, 2002.

The weighted average grant date fair value of the options for 2002, 2001 and 2000 were $4.33, $3.22 and $4.42, respectively. Had compensation cost for the Plan for options granted prior to December 31, 2001 been determined based on the fair value at the grant date for awards under the Plan consistent with the method prescribed by SFAS No. 123, the Company's pro forma net income available to common shareholders would have been:

	For the Years Ended December 31,		
	2002	2001	2000
Net income allocable to common shareholders, as reported.....	$ 42,018,000	$ 41,016,000	$ 46,093,000
Deduct: Total stock-based employee compensation expense determined under fair value based method of all awards ..	(802,000)	(686,000)	(548,000)
Net income allocable to common shareholders, as adjusted.....	$ 41,216,000	$ 40,330,000	$ 45,545,000
Earnings per share:			
Basic as reported.....	$ 1.95	$ 1.84	$ 1.98
Basic as adjusted	$ 1.91	$ 1.80	$ 1.96
Diluted as reported	$ 1.93	$ 1.83	$ 1.97
Diluted as adjusted	$ 1.90	$ 1.80	$ 1.96

For these disclosure purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2002, 2001 and 2000, respectively; dividend yield of 3.4%, 4.7% and 4.1%; expected volatility of 15.4%, 17.9% and 19.4%; expected lives of five years; and risk-free interest rates of 4.3%, 4.6% and 6.2%. The pro forma effect on net income allocable to common shareholders during 2002, 2001 and 2000 may not be representative of the pro forma effect on net income allocable to common shareholders in future years.

During 2002, 2001 and 2000, the Company also granted 34,750, 30,000 and 36,500 restricted stock units, respectively, to employees under the Plan, of which 81,750 restricted stock units were outstanding at December 31, 2002. The restricted stock units were granted at a zero exercise price. The fair market value of the restricted stock units at the date of grant ranged from $24.02 to $34.74 per restricted stock unit. The restricted stock units issued prior to August, 2002 (88,000 units) are subject to a five-year vesting schedule, at 30% in year three, 30% in year four and 40% in year five. Restricted stock issued subsequent to August, 2002 (13,250 units) are subject to a six year vesting schedule, none in year one and 20% for each of the next five years. Compensation expense of $551,000, $282,000 and $86,000 was recognized during the years ended December 31, 2002, 2001 and 2000, respectively. No restricted stock units were converted to common stock.

In March 2003, the Board of Directors approved the 2003 Stock Option and Incentive Plan covering 1,500,000 shares of PSB's common stock. Adoption of this plan is subject to shareholder approval.

11. Recent accounting pronouncements

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS 123. Although SFAS 148 does not require use of the fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition should companies elect to adopt the fair value method of accounting which requires companies to record compensation expense when stock options are granted. SFAS 148 also amends the disclosure provisions of SFAS 123 and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based awards entered into on or after January 1, 2002. SFAS 148's amendment of the transition and annual disclosure requirements are effective for fiscal years ending after December 15, 2002. The disclosure provisions of SFAS 148 have been adopted by us with appropriate disclosure.

12. Supplementary quarterly financial data (unaudited)

	Three Months Ended			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Revenues, as reported (1)	$ 39,475,000	$ 41,082,000	$ 43,885,000	$ 45,924,000
Revenues from discontinued operations	(1,349,000)	(1,494,000)	(1,406,000)	(1,204,000)
Revenues, as adjusted	$ 38,126,000	$ 39,588,000	$ 42,479,000	$ 44,720,000
Cost of operations (2)	$ 9,948,000	$ 10,058,000	$ 11,509,000	$ 11,752,000
Net income allocable to common shareholders	$ 10,193,000	$ 10,927,000	$ 10,010,000	$ 9,886,000
Net income per share:				
Basic	$ 0.44	$ 0.48	$ 0.45	$ 0.46
Diluted	$ 0.44	$ 0.48	$ 0.45	$ 0.46

	Three Months Ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Revenues, as reported (1)	$ 50,825,000	$ 51,504,000	$ 50,763,000	$ 49,567,000
Revenues from discontinued operations	(1,023,000)	(1,091,000)	(1,018,000)	(240,000)
Revenues, as adjusted	$ 49,802,000	$ 50,413,000	$ 49,745,000	$ 49,327,000
Cost of operations (2)	$ 13,482,000	$ 13,339,000	$ 13,084,000	$ 13,575,000
Net income allocable to common shareholders	$ 13,085,000	$ 9,539,000	$ 9,911,000	$ 9,483,000
Net income per share:				
Basic	$ 0.61	$ 0.44	$ 0.46	$ 0.44
Diluted	$ 0.60	$ 0.44	$ 0.46	$ 0.44

(1) Includes rental income, facilities management fees, business services revenue, interest income and dividend income.

(2) Includes cost of operations, cost of facilities management and cost of business services. Discontinued operations is excluded.

13. Commitments and contingencies

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any probable or reasonably possible environmental costs that management believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any potentially material environmental liability, except as discussed below.

The Company acquired a property in Beaverton, Oregon ("Creekside Corporate Park") in May 1998. A portion of Creekside Corporate Park, as well as properties adjacent to Creekside Corporate Park, were the subject of an environmental investigation conducted by two current and past owner/operators of an industrial facility on adjacent property, pursuant to a Consent Decree issued by the Oregon Department of Environmental Quality ("ODEQ"). Results of that investigation indicate that the contamination from the industrial facility has migrated onto portions of Creekside Corporate Park owned by the Company. There is no evidence that the Company's past or current use of the Creekside Corporate Park property contributed in any way to the contamination that is the subject of the investigation, nor has the ODEQ alleged any such contribution.

In January, 2003, the Company singed a Consent Decree resolving all potential liability to the ODEQ with respect to Creekside Corporate Park; pursuant to the Decree, the Company will pay approximately $128,000. A former owner of Creekside Corporate Park has agreed to contribute approximately $58,000 to the settlement. The Company has accrued these costs at December 31, 2002.

Although environmental investigations conducted to date on other properties owned by the Company have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, and the Company is not aware of any such liability, it is possible that these investigations did not reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. No assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability, or (ii) the current environmental condition of the Company's properties has not been, or will not be, affected by tenants and occupants of the Company's properties, by the condition of properties in the vicinity of the Company's properties, or by third parties unrelated to the Company.

The Company currently is neither subject to any other material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company other than routine litigation and administrative proceedings arising in the ordinary course of business. Management believes that the environmental issues will not have a material adverse impact on the Company's consolidated financial position or results of operations.

14. Reportable Segments

The Company has three reportable segments: flex properties, office properties and industrial properties located in eight geographical regions. Flex properties can generally be described as facilities that are configured with a combination of office and warehouse space and can be designed to fit an almost limitless number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse). Office properties consist primarily of low-rise suburban office buildings. Industrial properties are designed for light manufacturing, assembly, storage and warehousing, distribution and research and development activities. The properties generate rental income through the leasing of space to a diverse group of tenants. The accounting policies of the Company's segments are the same as those described in Note 2.

The Company evaluates the performance of its properties primarily based on net operating income ("NOI"). NOI is defined by the Company as rental income less cost of operations. Accordingly, NOI excludes certain items such as interest income, dividend income, depreciation expense, amortization expense, general and

administrative expense, interest expense and minority interest in income which are included in the determination of net income under accounting principles generally accepted in the United States.

	For the Year Ended December 31, 2002			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 32,998,000	$ 5,142,000	$ 4,699,000	$ 42,839,000
Northern California	12,001,000	6,452,000	2,676,000	21,129,000
Southern Texas	8,828,000	-	-	8,828,000
Northern Texas	18,421,000	1,965,000	780,000	21,166,000
Virginia	30,964,000	9,211,000	-	40,175,000
Maryland	11,883,000	14,752,000	-	26,635,000
Oregon	24,964,000	5,134,000	-	30,098,000
Other	6,695,000	-	-	6,695,000
	$ 146,754,000	$ 42,656,000	$ 8,155,000	$ 197,565,000
NOI:				
Southern California	$ 25,507,000	$ 3,787,000	$ 3,191,000	$ 32,485,000
Northern California	9,825,000	4,473,000	2,107,000	16,405,000
Southern Texas	5,869,000	-	-	5,869,000
Northern Texas	12,939,000	1,165,000	451,000	14,555,000
Virginia	22,586,000	6,223,000	-	28,809,000
Maryland	9,225,000	9,880,000	-	19,105,000
Oregon	20,427,000	3,285,000	-	23,712,000
Other	3,783,000	-	-	3,783,000
	$ 110,161,000	$ 28,813,000	$ 5,749,000	$ 144,723,000

	For the Year Ended December 31, 2001			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 28,587,000	$ 8,410,000	$ 5,824,000	$ 42,821,000
Northern California	15,451,000	1,369,000	2,756,000	19,576,000
Southern Texas	9,517,000	-	-	9,517,000
Northern Texas	18,005,000	1,823,000	-	19,828,000
Virginia	25,747,000	8,591,000	-	34,338,000
Maryland	8,439,000	512,000	-	8,951,000
Oregon	15,432,000	4,436,000	-	19,868,000
Other	6,710,000	-	-	6,710,000
	$ 127,888,000	$ 25,141,000	$ 8,580,000	$ 161,609,000
NOI:				
Southern California	$ 22,357,000	$ 5,374,000	$ 4,555,000	$ 32,286,000
Northern California	11,706,000	942,000	2,228,000	14,876,000
Southern Texas	6,341,000	-	-	6,341,000
Northern Texas	12,602,000	947,000	-	13,549,000
Virginia	19,500,000	5,508,000	-	25,008,000
Maryland	6,529,000	399,000	-	6,928,000
Oregon	12,865,000	3,297,000	-	16,162,000
Other	3,916,000	-	-	3,916,000
	$ 95,816,000	$ 16,467,000	$ 6,783,000	$ 119,066,000

	For the Year Ended December 31, 2000			
	Flex	Office	Industrial	Total
Revenue:				
Southern California	$ 27,072,000	$ 5,067,000	$ 4,365,000	$ 36,504,000
Northern California	13,165,000	1,319,000	2,493,000	16,977,000
Southern Texas	8,964,000	-	-	8,964,000
Northern Texas	17,524,000	1,454,000	-	18,978,000
Virginia	18,712,000	3,663,000	-	22,375,000
Maryland	8,372,000	214,000	-	8,586,000
Oregon	13,457,000	3,196,000	-	16,653,000
Other	6,297,000	-	-	6,297,000
	$ 113,563,000	$ 14,913,000	$ 6,858,000	$ 135,334,000
NOI:				
Southern California	$ 21,385,000	$ 3,309,000	$ 3,541,000	$ 28,235,000
Northern California	9,835,000	884,000	1,936,000	12,655,000
Southern Texas	5,914,000		-	5,914,000
Northern Texas	12,455,000	694,000	-	13,149,000
Virginia	14,147,000	2,257,000	-	16,404,000
Maryland	6,310,000	106,000	-	6,416,000
Oregon	11,112,000	2,194,000	-	13,306,000
Other	3,790,000	-	-	3,790,000
	$ 84,948,000	$ 9,444,000	$ 5,477,000	$ 99,869,000

The following table is provided to reconcile total segments NOI to consolidated operating income as determined by GAAP:

	For the Year Ended December 31,		
	2002	2001	2000
Net Operating Income:			
Segmented	$ 144,723,000	$ 119,066,000	$ 99,869,000
Facility management fees	587,000	531,000	428,000
Business services	(326,000)	(219,000)	203,000
Depreciation and amortization	(57,658,000)	(39,680,000)	(34,037,000)
General and administrative	(4,663,000)	(4,320,000)	(3,954,000)
Interest and dividend income	823,000	2,268,000	5,377,000
Interest expense	(5,324,000)	(1,715,000)	(1,481,000)
Equity in income of joint venture	1,978,000	25,000	-
Gain on investment of marketable securities	41,000	8,000	7,849,000
Income before gain on disposal of real estate, discontinued operations and minority interest	$ 80,181,000	$ 75,964,000	$ 74,254,000

Revenues are from external customers and no revenues are generated from transactions between segments. No single tenant accounted for more than 10% of the Company's total revenues. No segment data relative to assets or liabilities is presented since the Company does not evaluate performance based upon the assets or liabilities of the segments. The Company does not believe that historical cost of real estate facilities has any significant bearing upon the performance of the properties.

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2002			Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals			
Overland Park	Overland Park, KS	$ -	$0	$0	$0	$0	$0	$0	$0	3/17/98	5-30
Produce	San Francisco, CA	-	770	1,886	40	776	1,926	2,702	333	3/17/98	5-30
Crenshaw II	Torrance, CA	-	2,325	6,069	895	2,318	6,964	9,282	1,507	4/12/97	5-30
Airport	San Francisco, CA	-	899	2,387	285	899	2,672	3,571	540	4/12/97	5-30
Christopher Ave	Gaithersburg, MD	-	475	1,203	201	475	1,404	1,879	303	4/12/97	5-30
Monterey Park	Monterey Park, CA	-	3,078	7,862	569	3,078	8,431	11,509	1,753	1/1/97	5-30
Calle Del Oaks	Monterey, CA	-	287	706	135	287	841	1,128	200	1/1/97	5-30
Milwaukie I	Milwaukie, OR	-	1,125	2,857	643	1,125	3,500	4,625	787	1/1/97	5-30
Edwards Road	Cerritos, CA	-	450	1,217	466	450	1,683	2,133	373	1/1/97	5-30
Rainier	Renton, WA	-	330	889	181	330	1,070	1,400	241	1/1/97	5-30
Lusk	San Diego, CA	-	1,500	3,738	707	1,500	4,445	5,945	951	1/1/97	5-30
Eisenhower	Alexandria, VA	-	1,440	3,635	660	1,440	4,295	5,735	885	1/1/97	5-30
McKellips	Tempe, AZ	-	195	522	167	195	689	884	144	1/1/97	5-30
Old Oakland Rd	San Jose, CA	-	3,458	8,765	1,283	3,458	10,048	13,506	2,058	1/1/97	5-30
Junipero	Signal Hill, CA	-	900	2,510	168	900	2,678	3,578	501	1/1/97	5-30
Watson Plaza	Lakewood, CA	-	930	2,360	304	930	2,664	3,594	536	1/1/97	5-30
Northgate Blvd.	Sacramento, CA	-	1,710	4,567	997	1,710	5,564	7,274	1,135	1/1/97	5-30
Uplander	Culver City, CA	-	3,252	8,157	2,294	3,252	10,451	13,703	2,354	1/1/97	5-30
University	Tempe, AZ	-	2,160	5,454	2,068	2,160	7,522	9,682	1,600	1/1/97	5-30
E. 28th Street	Signal Hill, CA	-	1,500	3,749	490	1,500	4,239	5,739	874	1/1/97	5-30
W. Main	Mesa, AZ	-	675	1,692	849	675	2,541	3,216	485	1/1/97	5-30
S. Edward	Tempe, AZ	-	645	1,653	864	645	2,517	3,162	540	1/1/97	5-30
Leapwood Ave	Carson, CA	-	990	2,496	723	990	3,219	4,209	764	1/1/97	5-30
Downtown Center	Nashville, TN	-	660	1,681	626	660	2,307	2,967	526	1/1/97	5-30
Airport South	Nashville, TN	-	660	1,657	271	660	1,928	2,588	407	1/1/97	5-30
Great Oaks	Woodbridge, VA	-	1,350	3,398	579	1,350	3,977	5,327	796	1/1/97	5-30
Ventura Blvd. II	Studio City, CA	-	621	1,530	180	621	1,710	2,331	380	1/1/97	5-30
Largo 95	Largo, MD	-	3,085	7,332	475	3,085	7,807	10,892	1,618	9/24/97	5-30
Gunston	Lorton, VA	-	4,146	17,872	1,260	4,146	19,132	23,278	4,763	6/17/98	5-30
Canada	Lake Forest, CA	-	5,508	13,785	1,981	5,508	15,766	21,274	2,599	12/23/97	5-30
Ridge Route	Laguna Hills, CA	-	16,261	39,559	1,149	16,261	40,708	56,969	7,178	12/23/97	5-30
Lake Forest Commerce Park	Laguna Hills, CA	-	2,037	5,051	2,653	2,037	7,704	9,741	1,550	12/23/97	5-30
Buena Park Industrial Center	Buena Park, CA	-	3,245	7,703	1,124	3,245	8,827	12,072	1,793	12/23/97	5-30
Cerritos Business Center	Cerritos, CA	-	4,218	10,273	1,248	4,218	11,521	15,739	2,354	12/23/97	5-30
Parkway Commerce Center	Hayward, CA	-	4,398	10,433	1,571	4,398	12,004	16,402	2,319	12/23/97	5-30
Northpointe E	Sterling, VA	-	1,156	2,957	293	1,156	3,250	4,406	619	12/10/97	5-30
Ammendale	Beltsville, MD	-	4,278	18,380	2,611	4,278	20,991	25,269	6,440	1/13/98	5-30
Centrepointe	Landover, MD	8,164	3,801	16,708	2,060	3,801	18,768	22,569	5,191	3/20/98	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2002					
Description	Location	Encumbrances	Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals	Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
Shaw Road	Sterling, VA	-	2,969	10,008	941	2,969	10,949	13,918	3,372	3/9/98	5-30
Creekside-Phase 1	Beaverton, OR	-	4,519	13,651	869	4,519	14,520	19,039	4,012	5/4/98	5-30
Creekside-Phase 2 Bldg-4	Beaverton, OR	-	807	2,542	200	807	2,742	3,549	747	5/4/98	5-30
Creekside-Phase 2 Bldg-5	Beaverton, OR	-	521	1,603	74	521	1,677	2,198	463	5/4/98	5-30
Creekside-Phase 2 Bldg-1	Beaverton, OR	-	1,326	4,035	209	1,326	4,244	5,570	1,217	5/4/98	5-30
Creekside-Phase 3	Beaverton, OR	-	1,353	4,101	333	1,353	4,434	5,787	1,322	5/4/98	5-30
Creekside-Phase 5	Beaverton, OR	-	1,741	5,301	745	1,741	6,046	7,787	1,687	5/4/98	5-30
Creekside-Phase 6	Beaverton, OR	-	2,616	7,908	629	2,616	8,537	11,153	2,378	5/4/98	5-30
Creekside-Phase 7	Beaverton, OR	-	3,293	9,938	1,127	3,293	11,065	14,358	3,119	5/4/98	5-30
Creekside-Phase 8	Beaverton, OR	-	1,140	3,644	107	1,140	3,751	4,891	1,004	5/4/98	5-30
Woodside-Phase 1	Beaverton, OR	-	2,987	8,982	1,339	2,987	10,321	13,308	2,777	5/4/98	5-30
Woodside-Phase 2 Bldg-6	Beaverton, OR	-	255	784	84	255	868	1,123	267	5/4/98	5-30
Woodside-Phase 2 Bldg-7&8	Beaverton, OR	-	2,101	6,386	554	2,101	6,940	9,041	1,906	5/4/98	5-30
Woodside-Sequent 1	Beaverton, OR	-	2,890	8,672	45	2,890	8,717	11,607	2,418	5/4/98	5-30
Woodside-Sequent 5	Beaverton, OR	-	3,093	9,279	2	3,093	9,281	12,374	2,575	5/4/98	5-30
Northpointe G	Sterling, VA	-	824	2,964	634	824	3,598	4,422	886	6/11/98	5-30
Spectrum 95	Landover, MD	-								9/30/98	5-30
Las Plumas	San Jose, CA	-	4,379	12,889	955	4,379	13,844	18,223	3,587	12/31/98	5-30
Lafayette	Chantilly, VA	-	671	4,179	102	671	4,281	4,952	921	01/29/99	5-30
CreeksideVII	Beaverton, OR	-	358	3,232	83	358	3,315	3,673	357	04/17/00	5-30
Woodside-Greystone	Beaverton, OR	-	1,262	6,966	2,417	1,262	9,383	10,645	1,429	7/15/99	5-30
Dulles South	Chantilly, VA	-	599	3,098	202	599	3,300	3,899	658	6/30/99	5-30
Sullyfield Circle	Chantilly, VA	-	774	3,712	380	774	4,092	4,866	825	6/30/99	5-30
Park East I & II	Chantilly, VA	6,067	2,324	10,875	361	2,324	11,236	13,560	2,218	6/30/99	5-30
Park East III	Chantilly, VA	6,048	1,527	7,154	388	1,527	7,542	9,069	1,518	6/30/99	5-30
Northpointe Business Center A	Sacramento, CA	-	729	3,324	577	729	3,901	4,630	1,208	7/29/99	5-30
Corporate Park Phoenix	Phoenix, AZ	-	2,761	10,269	601	2,761	10,870	13,631	1,685	12/30/99	5-30
Santa Clara Technology Park	Santa Clara, CA	-	7,673	15,645	491	7,673	16,136	23,809	2,476	3/28/00	5-30
Corporate Pointe	Irvine, CA	-	6,876	18,519	1,037	6,876	19,556	26,432	2,630	9/22/00	5-30
Lafayette II/Pleasant Valley Rd	Chantilly, VA	-	1,009	9,219	1,127	1,009	10,346	11,355	988	8/15/01	5-30
Northpointe Business Center B	Sacramento, CA	-	717	3,269	567	717	3,836	4,553	652	7/29/99	5-30
Northpointe Business Center C	Sacramento, CA	-	726	3,313	449	726	3,762	4,488	613	7/29/99	5-30
Northpointe Business Center D	Sacramento, CA	-	427	1,950	214	427	2,164	2,591	350	7/29/99	5-30
Northpointe Business Center E	Sacramento, CA	-	432	1,970	38	432	2,008	2,440	338	7/29/99	5-30
I-95 Building I	Springfield, VA	-	1,308	5,790	367	1,308	6,157	7,465	768	12/20/00	5-30
I-95 Building II	Springfield, VA	-	1,308	5,790	97	1,308	5,887	7,195	738	12/20/00	5-30
I-95 Building III	Springfield, VA	-	919	4,092	1,414	919	5,506	6,425	644	12/20/00	5-30
2700 Prosperity Avenue	Fairfax, VA	-	3,404	9,883	8	3,404	9,891	13,295	836	6/1/01	5-30
2701 Prosperity Avenue	Fairfax, VA	-	2,199	6,374	2	2,199	6,376	8,575	539	6/1/01	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2002			Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals			
2710 Prosperity Avenue	Fairfax, VA	-	969	2,844	5	969	2,849	3,818	244	6/1/01	5-30
2711 Prosperity Avenue	Fairfax, VA	-	1,047	3,099	62	1,047	3,161	4,208	282	6/1/01	5-30
2720 Prosperity Avenue	Fairfax, VA	-	1,898	5,502	114	1,898	5,616	7,514	465	6/1/01	5-30
2721 Prosperity Avenue	Fairfax, VA	-	576	1,673	577	576	2,250	2,826	196	6/1/01	5-30
2730 Prosperity Avenue	Fairfax, VA	-	3,011	8,841	728	3,011	9,569	12,580	831	6/1/01	5-30
2731 Prosperity Avenue	Fairfax, VA	-	524	1,521	6	524	1,527	2,051	129	6/1/01	5-30
2740 Prosperity Avenue	Fairfax, VA	-	890	2,732	28	890	2,760	3,650	264	6/1/01	5-30
2741 Prosperity Avenue	Fairfax, VA	-	786	2,284	197	786	2,481	3,267	213	6/1/01	5-30
2750 Prosperity Avenue	Fairfax, VA	-	4,203	12,190	190	4,203	12,380	16,583	1,051	6/1/01	5-30
2751 Prosperity Avenue	Fairfax, VA	-	3,640	10,632	-4	3,640	10,628	14,268	909	6/1/01	5-30
Woodside Greystone II & III	Beaverton, OR	-	1,558	9,024	287	1,558	9,311	10,869	525	09/30/01	5-30
Greenbrier Court	Beaverton, OR	-	2,771	8,403	7	2,771	8,410	11,181	585	11/20/01	5-30
Parkside	Beaverton, OR	-	4,348	13,502	597	4,348	14,099	18,447	1,024	11/20/01	5-30
The Atrium	Beaverton, OR	-	5,535	16,814	48	5,535	16,862	22,397	1,175	11/20/01	5-30
Waterside	Beaverton, OR	-	4,045	12,419	231	4,045	12,650	16,695	862	11/20/01	5-30
Ridgeview	Beaverton, OR	-	2,478	7,531	8	2,478	7,539	10,017	524	11/20/01	5-30
The Commons	Beaverton, OR	-	1,439	4,566	784	1,439	5,350	6,789	386	11/20/01	5-30
Lamar Boulevard	Austin, TX	-	2,528	6,596	2,298	2,528	8,894	11,422	2,064	1/1/97	5-30
N. Barker's Landing	Houston, TX	-	1,140	3,003	1,770	1,140	4,773	5,913	1,153	1/1/97	5-30
La Prada	Mesquite, TX	-	495	1,235	150	495	1,385	1,880	285	1/1/97	5-30
NW Highway	Garland, TX	-	480	1,203	83	480	1,286	1,766	265	1/1/97	5-30
Quail Valley	Missouri City, TX	-	360	918	117	360	1,035	1,395	213	1/1/97	5-30
Business Parkway I	Richardson, TX	-	799	3,568	615	799	4,183	4,982	1,128	5/4/98	5-30
The Summit	Plano, TX	-	1,536	6,654	1,065	1,536	7,719	9,255	2,406	5/4/98	5-30
Northgate II	Dallas, TX	-	1,274	5,505	893	1,274	6,398	7,672	1,987	5/4/98	5-30
Empire Commerce	Dallas, TX	-	304	1,545	213	304	1,758	2,062	443	5/4/98	5-30
Royal Tech – Digital	Irving, TX	-	319	1,393	279	319	1,672	1,991	498	5/4/98	5-30
Royal Tech – Springwood	Irving, TX	-	894	3,824	449	894	4,273	5,167	1,233	5/4/98	5-30
Royal Tech – Regent	Irving, TX	-	606	2,615	771	606	3,386	3,992	1,072	5/4/98	5-30
Royal Tech – Bldg 7	Irving, TX	-	246	1,061	15	246	1,076	1,322	288	5/4/98	5-30
Royal Tech – NFTZ	Irving, TX	-	1,517	6,499	489	1,517	6,988	8,505	1,933	5/4/98	5-30
Royal Tech – Olympus	Irving, TX	-	1,060	4,531	65	1,060	4,596	5,656	1,243	5/4/98	5-30
Royal Tech – Honeywell	Irving, TX	-	548	2,347	172	548	2,519	3,067	719	5/4/98	5-30
Royal Tech – Bldg 12	Irving, TX	-	1,466	6,263	8	1,466	6,271	7,737	1,708	5/4/98	5-30
Royal Tech – Bldg 13	Irving, TX	-	955	4,080	258	955	4,338	5,293	1,217	5/4/98	5-30
Royal Tech – Bldg 14	Irving, TX	-	2,010	10,242	562	2,010	10,804	12,814	2,640	5/4/98	5-30
Royal Tech – Bldg 15	Irving, TX	-	1,307	5,600	153	1,307	5,753	7,060	1,561	11/4/98	5-30

PS BUSINESS PARKS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

Description	Location	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2002			Accumulated Depreciation	Date Acquired	Depreciable Lives (Years)
			Land	Buildings and Improvements	Buildings and Improvements	Land	Buildings and Improvements	Totals			
Westchase Corporate Park	Houston, TX	-	2,173	7,338	189	2,173	7,527	9,700	1,237	12/30/99	5-30
Ben White 1	Austin, TX	-	789	3,571	23	789	3,594	4,383	876	12/31/98	5-30
Ben White 5	Austin, TX	-	761	3,444	83	761	3,527	4,288	869	12/31/98	5-30
McKalla 3	Austin, TX	-	662	2,994	252	662	3,246	3,908	793	12/31/98	5-30
McKalla 4	Austin, TX	-	749	3,390	83	749	3,473	4,222	866	12/31/98	5-30
Mopac 6	Austin, TX	-	307	1,390	189	307	1,579	1,886	405	12/31/98	5-30
Waterford A	Austin, TX	-	597	2,752	1	597	2,753	3,350	632	1/06/99	5-30
Waterford B	Austin, TX	-	367	1,672	-	367	1,672	2,039	347	5/20/99	5-30
Waterford C	Austin, TX	-	1,144	5,225	35	1,144	5,260	6,404	1,096	5/20/99	5-30
McNeil 6	Austin, TX	-	437	2,013	-	437	2,013	2,450	462	1/6/9	5-30
Rutland 11	Austin, TX	-	325	1,536	-	325	1,536	1,861	347	1/6/99	5-30
Rutland 12	Austin, TX	-	535	2,487	54	535	2,541	3,076	608	1/6/99	5-30
Rutland 13	Austin, TX	-	469	2,190	30	469	2,220	2,689	515	1/6/99	5-30
Rutland 14	Austin, TX	-	535	2,422	115	535	2,537	3,072	636	12/31/98	5-30
Rutland 19	Austin, TX	-	158	762	139	158	901	1,059	238	1/6/99	5-30
Royal Tech - Bldg 16	Irving, TX	-	2,464	2,703	2,017	2,464	4,720	7,184	469	7/1/99	5-30
Royal Tech - Bldg 17	Irving, TX	-	1,832	6,901	2,109	1,832	9,010	10,842	618	8/15/01	5-30
Monroe Business Center	Herndon, VA	-	5,926	13,944	2,118	5,926	16,062	21,988	3,845	8/1/97	5-30
Lusk II-R&D	San Diego, CA	-	1,077	2,644	146	1,077	2,790	3,867	486	3/17/98	5-30
Lusk II-Office	San Diego, CA	-	1,230	3,005	705	1,230	3,710	4,940	698	3/17/98	5-30
Norris Cn-Office	San Ramon, CA	-	1,486	3,642	660	1,486	4,302	5,788	773	3/17/98	5-30
Northpointe D	Sterling, VA	-	787	2,857	1,032	787	3,889	4,676	878	6/11/98	5-30
Monroe II	Herndon, VA	-	811	4,967	334	811	5,301	6,112	1,338	1/29/99	5-30
Metro Park I	Rockville, MD	-	5,383	15,404	69	5,383	15,473	20,856	1,023	12/27/01	5-30
Metro Park I R&D	Rockville, MD	-	5,404	15,748	407	5,404	16,155	21,559	1,094	12/27/01	5-30
Metro Park II	Rockville, MD	-	1,223	3,490	149	1,223	3,639	4,862	246	12/27/01	5-30
Metro Park II	Rockville, MD	-	2,287	6,533	195	2,287	6,728	9,015	435	12/27/01	5-30
Metro Park III	Rockville, MD	-	4,555	13,039	58	4,555	13,097	17,652	869	12/27/01	5-30
Metro Park IV	Rockville, MD	-	4,188	12,035	60	4,188	12,095	16,283	800	12/27/01	5-30
Metro Park V	Rockville, MD	-	9,813	28,214	23	9,813	28,237	38,050	1,867	12/27/01	5-30
Kearny Mesa-Office	San Diego, CA	-	785	1,933	657	785	2,590	3,375	515	3/17/98	5-30
Kearny Mesa-R&D	San Diego, CA	-	2,109	5,156	158	2,109	5,314	7,423	910	3/17/98	5-30
Bren Mar-Office	Alexandria, VA	-	572	1,401	887	572	2,288	2,860	527	3/17/98	5-30
Lusk III	San Diego, CA	-	1,904	4,662	253	1,904	4,915	6,819	847	3/17/98	5-30
Bren Mar-R&D	Alexandria, VA	-	1,625	3,979	170	1,625	4,149	5,774	692	3/17/98	5-30
Alban Road-Office	Springfield, VA	-	988	2,418	1,173	988	3,591	4,579	676	3/17/98	5-30
Alban Road-R&D	Springfield, VA	-	947	2,318	330	948	2,648	3,596	450	3/17/98	5-30
		$20,279	$286,301	$886,441	$82,032	$286,301	$968,473	$1,254,774	$177,229		

EXHIBIT 3.10

EXHIBIT B

CERTIFICATE OF DETERMINATION

CERTIFICATE OF DETERMINATION OF PREFERENCES
OF
[___]% SERIES G CUMULATIVE REDEEMABLE
PREFERRED STOCK
OF
PS BUSINESS PARKS, INC.

The undersigned, David Goldberg and Jack E. Corrigan, Vice President and Secretary, respectively, of PS BUSINESS PARKS, INC., a California corporation, do hereby certify:

FIRST: The Restated Articles of Incorporation of the Corporation authorize the issuance of 50,000,000 shares of stock designated "Preferred shares," issuable from time to time in one or more series, and authorize the Board of Directors to fix the number of shares constituting any such series, and to determine or alter the dividend rights, dividend rate, conversion rights, voting rights, right and terms of redemption (including sinking fund provisions), the redemption price or prices and the liquidation preference of any wholly unissued series of such Preferred shares, and the number of shares constituting any such series.

SECOND: The Board of Directors of the Corporation did duly adopt the resolutions attached hereto as Exhibit A and incorporated herein by reference authorizing and providing for the creation of a series of Preferred shares to be known as "[___]% Series G Cumulative Redeemable Preferred Stock" consisting of _____ shares, none of the shares of such series having been issued.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

IN WITNESS WHEREOF, the undersigned have executed this certificate this 29th day of October, 2002.

_____
David Goldberg, Vice President

_____
Jack E. Corrigan, Secretary

EXHIBIT A

RESOLUTION OF THE BOARD OF DIRECTORS
OF PS BUSINESS PARKS, INC.

ESTABLISHING A SERIES OF [___]% SERIES G
CUMULATIVE REDEEMABLE PREFERRED STOCK

RESOLVED that pursuant to the authority conferred upon the Board of Directors by Article III of the Restated Articles of Incorporation of this Corporation, there is hereby established a series of the authorized Preferred shares of this Corporation having a par value of $.01 per share, which series shall be designated "[___]% Series G Cumulative Redeemable Preferred Stock," shall consist of _____ shares and shall have the following rights, preferences and privileges:

1. Rank. The [___]% Series G Cumulative Redeemable Preferred Stock (the "Series G Preferred Stock") will, with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Corporation, or both, rank senior to all classes or series of Common Shares and to all classes or series of equity

securities of the Corporation now or hereafter authorized, issued or outstanding, other than any class or series of equity securities of the Corporation expressly designated as ranking on a parity with or senior to the Series G Preferred Stock as to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Corporation. For purposes of this Certificate of Determination, the term "Parity Preferred Stock" shall be used to refer to any class or series of capital stock of the Corporation now or hereafter authorized, issued or outstanding expressly designated by the Corporation to rank on a parity with Series G Preferred Stock with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Corporation (including the Corporation's 9¼% Cumulative Preferred Stock, Series A, the 8⅞% Series B Cumulative Redeemable Preferred Stock, the 8¾% Series C Cumulative Redeemable Preferred Stock, the 9.500% Cumulative Preferred Stock, Series D, the 9¼% Series E Cumulative Redeemable Preferred Stock, 8.750% Cumulative Preferred Stock, Series F, the 8⅞% Series X Cumulative Redeemable Preferred Stock and the 8⅞% Series Y Cumulative Redeemable Preferred Stock). For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Shares and Preferred Stock), shares, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

2. Distribution Rights. (a) Payment of Distributions. Subject to the rights of holders of Parity Preferred Stock as to the payment of distributions, holders of Series G Preferred Stock shall be entitled to receive the Series G Priority Return, when, as and if declared by the Board of Directors of the Corporation, out of funds legally available for the payment of distributions. Such distributions shall be cumulative, shall accrue from the original date of issuance of the Series G Preferred Stock and will be payable (A) quarterly in arrears, on March 31, June 30, September 30 and December 31 of each year commencing on the first such date following the date of issuance of such stock and, (B) in the event of a redemption, on the redemption date (each a "Series G Preferred Stock Distribution Payment Date"). If any Series G Preferred Stock Distribution Payment Date is not a Business Day (as defined herein), then payment of the distribution to be made on such date shall be made on the Business Day immediately preceding such Series G Preferred Stock Distribution Payment Date in each case with the same force and effect as if made on such date. Distributions on the Series G Preferred Stock will be made to the holders of record of the Series G Preferred Stock on the relevant record dates to be fixed by the Board of Directors of the Corporation, which record dates shall in no event be more than 45 days or less than 15 days prior to the relevant Series G Preferred Stock Distribution Payment Date (each, a "Distribution Record Date").

For purposes of this Certificate of Determination, the following terms shall have the meanings set forth herein: (i) "Liquidation Preference" shall mean, with respect to the Series G Preferred Stock, $25.00 per share of Series G Preferred Stock, plus the amount of any accumulated and unpaid Series G Priority Return (as hereinafter defined) with respect to such share, whether or not declared, minus any distributions in excess of the Series G Priority Return that has accrued with respect to such Series G Preferred Units, to the date of payment; (ii) "Series G Priority Return" shall mean an amount equal to [___]% per annum of the Liquidation Preference per share of Series G Preferred Stock, commencing on the date of issuance of such share of Series G Preferred Stock, determined on the basis of a 360-day year of twelve 30-day months (and for any period shorter than a full quarterly period for which distributions are computed, the amount of the distribution payable will be computed based on the ratio of the actual number of days elapsed in such period to ninety (90) days), cumulative to the extent not distributed on any Series G Preferred Stock Distribution Payment Date plus the per share amount accrued on each share of Series G Preferred Stock on the date of issuance of such shares in exchange for Series G Preferred Units of PS Business Parks, L.P. corresponding to the accrued and unpaid priority return on such Preferred Units, if any; and (iii) "Business Day" shall mean each day, other than a Saturday or a Sunday, which is not a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

(b) Prohibition on Distributions. No distributions on Series G Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at any such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to indebtedness,

prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or to the extent that such authorization or payment shall be restricted or prohibited by law.

(c) Distributions Cumulative. Distributions on the Series G Preferred Stock will accrue whether or not the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, at any time prohibits the current payment of distributions, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such distributions and whether or not such distributions are authorized or declared. Accrued but unpaid distributions on the Series G Preferred Stock will accumulate as of the Series G Preferred Stock Distribution Payment Date on which they first become payable. Distributions on account of arrears for any past distribution periods may be declared and paid at any time, without reference to a regular Series G Preferred Stock Distribution Payment Date, to holders of record of the Series G Preferred Stock on the record date fixed by the Board of Directors which date shall not exceed fifteen (15) business days prior to the payment date. Accumulated and unpaid distributions will not bear interest.

(d) Priority as to Distributions. (i) So long as any Series G Preferred Stock is outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Common Shares or any class or series of other stock of the Corporation ranking junior as to the payment of distributions or rights upon voluntary or involuntary dissolution, liquidation or winding-up of the Corporation to the Series G Preferred Stock (such Common Shares or other junior stock, collectively, "Junior Stock"), nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series G Preferred Stock, any Parity Preferred Stock or any Junior Stock, unless, in each case, all distributions accumulated on all Series G Preferred Stock and all classes and series of outstanding Parity Preferred Stock have been paid in full. The foregoing sentence shall not prohibit (i) distributions payable solely in Junior Stock, and (ii) the conversion of Series G Preferred Stock, Junior Stock or Parity Preferred Stock into stock of the Corporation ranking junior to the Series G Preferred Stock as to distributions.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not irrevocably deposited in trust for payment) upon the Series G Preferred Stock, all distributions authorized and declared on the Series G Preferred Stock and all classes or series of outstanding Parity Preferred Stock with respect to distributions shall be authorized and declared so that the amount of distributions authorized and declared per share of Series G Preferred Stock and such other classes or series of Parity Preferred Stock shall in all cases bear to each other the same ratio that accrued distributions per share on the Series G Preferred Stock and such other classes or series of Parity Preferred Stock (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Stock do not have cumulative distribution rights) bear to each other.

(e) No Further Rights. Holders of Series G Preferred Stock shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

3. Liquidation. (a) Payment of Liquidating Distributions. Subject to the rights of holders of Parity Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation and subject to any series of capital stock ranking senior to the Series G Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the holders of Series G Preferred Stock shall be entitled to receive out of the assets of the Corporation legally available for distribution or the proceeds thereof, after payment or provision for debts and other liabilities of the Corporation, but before any payment or distributions of the assets shall be made to holders of Common Shares or any other class or series of shares of the Corporation that ranks junior to the Series G Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Corporation, an amount equal to the Liquidation Preference per share of Series G Preferred Stock. If upon such voluntary or involuntary liquidation, dissolution or winding-up, there are insufficient

assets to permit full payment of liquidating distributions to the holders of Series G Preferred Stock and any Parity Preferred Stock, all payments of liquidating distributions on the Series G Preferred Stock and such Parity Preferred Stock shall be made so that the payments on the Series G Preferred Stock and such Parity Preferred Stock shall in all cases bear to each other the same ratio that the respective rights of the Series G Preferred Stock and such other Parity Preferred Stock (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such Parity Preferred Stock does not have cumulative distribution rights) upon liquidation, dissolution or winding-up of the Corporation bear to each other.

(b) Notice. Written notice of any such voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by (i) fax and (ii) by first class mail, postage pre-paid, not less than 10 and not more than 60 days prior to the payment date stated therein, to each record holder of the Series G Preferred Stock at the respective addresses of such holders as the same shall appear on the share transfer records of the Corporation.

(c) No Further Rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series G Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Consolidation, Merger or Certain Other Transactions. The voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation to, or the consolidation or merger or other business combination of the Corporation with or into, any corporation, trust or other entity (or of any corporation, trust or other entity with or into the Corporation) or a statutory share exchange shall not be deemed to constitute a liquidation, dissolution or winding-up of the Corporation.

4. Optional Redemption. (a) Right of Optional Redemption. The Series G Preferred Stock may not be redeemed prior to October 29, 2007. On or after such date, the Corporation shall have the right to redeem the Series G Preferred Stock, in whole (but not in part), at any time, upon not less than 30 nor more than 60 days' written notice, at a redemption price, payable in cash, equal to the Liquidation Preference (the "Series G Redemption Price").

(b) Limitation on Redemption. The redemption price of the Series G Preferred Stock will be payable solely to the extent such payment would be permitted as a distribution under the California Corporations Code.

(c) Procedures for Redemption. (i) Notice of redemption will be (i) faxed, and (ii) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series G Preferred Stock to be redeemed at their respective addresses as they appear on the share transfer records of the Corporation. No failure to give or defect in such notice shall affect the validity of the proceedings for the redemption of any Series G Preferred Stock except as to the holder to whom such notice was defective or not given. In addition to any information required by law or by the applicable rules of any exchange upon which the Series G Preferred Stock may be listed or admitted to trading, each such notice shall state: (i) the redemption date, (ii) the redemption price, (iii) the number of shares of Series G Preferred Stock to be redeemed, (iv) the place or places where such shares of Series G Preferred Stock are to be surrendered for payment of the redemption price, (v) that distributions on the Series G Preferred Stock to be redeemed will cease to accumulate on such redemption date and (vi) that payment of the redemption price and any accumulated and unpaid distributions will be made upon presentation and surrender of such Series G Preferred Stock.

(ii) If the Corporation gives a notice of redemption in respect of Series G Preferred Stock (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, the Corporation will deposit

irrevocably in trust for the benefit of the Series G Preferred Stock being redeemed funds sufficient to pay the applicable Series G Redemption Price, and will give irrevocable instructions and authority to pay such Series G Redemption Price to the holders of the Series G Preferred Stock upon surrender of the certificate evidencing the Series G Preferred Stock by such holders at the place designated in the notice of redemption. On and after the date of redemption, distributions will cease to accumulate on the Series G Preferred Stock called for redemption, unless the Corporation defaults in the payment thereof. If any date fixed for redemption of Series G Preferred Stock is not a Business Day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the Series G Redemption Price or any accumulated or unpaid distributions in respect of the Series G Preferred Stock is improperly withheld or refused and not paid by the Corporation, distributions on such Series G Preferred Stock will continue to accumulate from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Series G Redemption Price.

(d) Status of Redeemed Stock. Any Series G Preferred Stock that shall at any time have been redeemed shall after such redemption have the status of authorized but unissued Preferred Stock, without designation as to class or series until such shares are once more designated as part of a particular class or series by the Board of Directors.

5. Voting Rights. (a) General. Holders of the Series G Preferred Stock will not have any voting rights, except as set forth below.

(b) Right to Elect Directors. If the Corporation shall fail to pay full cumulative dividends on the shares of Series G Preferred Stock or any of its Preferred shares for six quarterly dividend payment periods, whether or not consecutive (a "Dividend Default"), the holders of all outstanding Preferred shares, voting as a single class without regard to series, will be entitled to elect two Directors until full cumulative dividends for all past dividend payment periods on all Preferred shares have been paid or declared and funds therefor set apart for payment. Such right to vote separately as a class to elect Directors shall, when vested, be subject, always, to the same provisions for the vesting of such right to elect Directors separately as a class in the case of future Dividend Defaults. At any time when such right to elect Directors separately as a class shall have so vested, the Corporation may call, and, upon the written request of the holders of record of not less than 20% of the total number of Preferred shares of the Corporation then outstanding, shall call, a special meeting of stockholders for the election of Directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request and, in either case, at the place and upon the notice provided by law and in the Bylaws of the Corporation; provided that the Corporation shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing Annual Meeting of Shareholders of the Corporation and the holders of all classes of outstanding Preferred shares are afforded the opportunity to elect such Directors (or fill any vacancy) at such Annual Meeting of Shareholders. Directors elected as aforesaid shall serve until the next Annual Meeting of Shareholders of the Corporation or until their respective successors shall be elected and qualified. If, prior to the end of the term of any Director elected as aforesaid, a vacancy in the office of such Director shall occur during the continuance of a Dividend Default by reason of death, resignation, or disability, such vacancy shall be filled for the unexpired term by the appointment of a new Director for the unexpired term of such former Director, such appointment to be made by the remaining Director elected as aforesaid.

(c) Certain Voting Rights. So long as any Series G Preferred Stock or Series G Preferred Units exchangeable into Series G Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of a majority of the Series G Preferred Stock outstanding at the time, (i) designate or create, or increase the authorized or issued amount of, any class or series of shares ranking prior to the Series G Preferred Stock with respect to payment of distributions or rights upon liquidation, dissolution or winding-up or reclassify any authorized

shares of the Corporation into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, (ii) designate or create, or increase the authorized or issued amount of, any Parity Preferred Stock or reclassify any authorized shares of the Corporation into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, but only to the extent such Parity Preferred Stock is issued to an Affiliate of the Corporation on terms that differ from the terms of such series of Parity Preferred Stock issued to the public or non-Affiliates of the Corporation, (iii) increase the authorized number of shares of Series G Preferred Stock, or (iv) either (A) consolidate, merge into or with, or convey, transfer or lease its assets substantially as an entirety, to any corporation or other entity, or (B) amend, alter or repeal the provisions of the Corporation's Articles of Incorporation (including this Certificate of Determination) or Bylaws, whether by merger, consolidation or otherwise, in each case that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series G Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of a merger, consolidation or a sale or lease of all of the Corporation's assets as an entirety, so long as (a) the Corporation is the surviving entity and the Series G Preferred Stock remains outstanding with the terms thereof unchanged, or (b) the resulting, surviving or transferee entity is a corporation organized under the laws of any state and substitutes for the Series G Preferred Stock other preferred stock having substantially the same terms and same rights as the Series G Preferred Stock, including with respect to distributions, voting rights and rights upon liquidation, dissolution or winding-up, then the occurrence of any such event shall not be deemed to materially and adversely affect such rights, privileges or voting powers of the holders of the Series G Preferred Stock; and provided, further, that any increase in the amount of authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, or any increase in an amount of authorized shares of each class or series, in each case ranking either (a) junior to the Series G Preferred Stock with respect to payment of distributions and the distribution of assets upon liquidation, dissolution or winding-up, or (b) on a parity with the Series G Preferred Stock with respect to payment of distributions or the distribution of assets upon liquidation, dissolution or winding-up to the extent such Preferred Stock is not issued to an Affiliate of the Corporation on terms that differ from the terms of any Parity Preferred Stock issued to the public or non-Affiliates of the Corporation, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The affirmative vote or consent of the holders of at least 66 2/3% of the outstanding shares of this Series and any other series of Preferred shares ranking on a parity with this Series as to dividends and upon liquidation, voting as a single class without regard to series, will be required to issue, authorize or increase the authorized amount of any class or series of shares ranking prior to this Series as to dividends or upon liquidation or to issue or authorize any obligation or security convertible into or evidencing a right to purchase any such security, but subject to Section 5(c)(ii) hereof, the Articles of Incorporation may be amended to increase the number of authorized Preferred shares ranking on a parity with or junior to this Series or to create another class of Preferred shares ranking on a parity with or junior to this Series without the vote of the holders of outstanding shares of this Series.

6. Conversion. The holders of the Series G Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of stock or into any other securities of, or interest in, the Corporation.

7. No Sinking Fund. No sinking fund shall be established for the retirement or redemption of Series G Preferred Stock.

8. No Preemptive Rights. No holder of the Series G Preferred Stock of the Corporation shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Corporation or any other security of the Corporation which it may issue or sell.

EXHIBIT 10.26

PS BUSINESS PARKS, L.P.

AMENDMENT TO AGREEMENT OF LIMITED
PARTNERSHIP RELATING TO
[___]% SERIES G CUMULATIVE REDEEMABLE
PREFERRED UNITS

This Amendment to the Agreement of Limited Partnership of PS Business Parks, L.P., a California limited partnership (the **"Partnership**"), dated as of the 29th day of October, 2002 (this **"Amendment**") amends the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, by and among PS Business Parks, Inc. (the **"General Partner**") and each of the limited partners executing a signature page thereto, as amended by that certain Amendment to Agreement of Limited Partnership Relating to 8⅞% Series B Cumulative Redeemable Preferred Units, dated as of April 23, 1999, an Amendment to Agreement of Limited Partnership Relating to 9¼% Series A Cumulative Redeemable Preferred Units, dated as of April 30, 1999, an Amendment to Agreement of Limited Partnership Relating to 8⅞% Series X Cumulative Redeemable Preferred Units, dated as of September 7, 1999, an Amendment to Agreement of Limited Partnership Relating to Additional 8⅞% Series X Cumulative Redeemable Preferred Units, dated as of September 23, 1999, an Amendment to Agreement of Limited Partnership Relating to 8¾% Series C Cumulative Redeemable Preferred Units, dated as of September 3, 1999, an Amendment to Agreement of Limited Partnership Relating to 8⅞% of Series Y Cumulative Redeemable Preferred Units, dated as of July 12, 2000, an Amendment to Agreement of Limited Partnership Relating to 9½% Series D Cumulative Redeemable Preferred Units, dated as of May 10, 2001, as amended by Amendment No. 1 to such Amendment to Agreement of Limited Partnership Relating to 9½% Series D Cumulative Redeemable Preferred Units, dated as of June 18, 2001, an Amendment to Agreement of Limited Partnership Relating to 9¼% Series E Cumulative Redeemable Preferred Units, dated as of September 21, 2001, and an Amendment to Agreement of Limited Partnership Relating to 8¾% Series F Cumulative Redeemable Preferred Units, dated as of January 28, 2002 (collectively, the **"Partnership Agreement**"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Partnership Agreement. Section references are (unless otherwise specified) references to sections in this Amendment.

WHEREAS, pursuant to Section 4.2(a) of the Partnership Agreement, the General Partner desires to cause the Partnership to issue additional Units of a new class and series, with the designations, preferences and relative, participating, optional or other special rights, powers and duties set forth herein;

WHEREAS, pursuant to Sections 4.2(a) and 14.1(b)(2) of the Partnership Agreement, the General Partner, without the consent of the Limited Partners, may amend the Partnership Agreement by executing a written instrument setting forth the terms of such amendment; and

WHEREAS, the General Partner desires by this Amendment to so amend the Partnership Agreement as of the date first set forth above to provide for the designation and issuance of such new class and series of Units.

NOW, THEREFORE, the Partnership Agreement is hereby amended by establishing and fixing the rights, limitations and preferences of a new class and series of Units as follows:

Section 1. Definitions. Capitalized terms not otherwise defined herein shall have their respective meanings set forth in the Partnership Agreement. Capitalized terms that are used in this Amendment shall have the meanings set forth below:

(a) **"Liquidation Preference"** means, with respect to the Series G Preferred Units (as hereinafter defined), $25.00 per Series G Preferred Unit, plus the amount of any accumulated and unpaid Priority Return with respect to such unit, whether or not declared, minus any distributions in excess of the Priority Return that has accrued with respect to such Series G Preferred Units to the date of payment.

(b) **"Parity Preferred Units"** means any class or series of Partnership Interests of the Partnership now or hereafter authorized, issued or outstanding and expressly designated by the Partnership to rank on a parity with the Series G Preferred Units with respect to distributions and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Partnership, including the 9¼% Series A Cumulative Redeemable Preferred Units (the "**Series A Preferred Units**"), the 8⅞% Series B Cumulative Redeemable Preferred Units (the "**Series B Preferred Units**"), the 8¾% Series C Cumulative Redeemable Preferred Units (the "**Series C Preferred Units**"), the 9½ Series D Cumulative Redeemable Preferred Units (the "**Series D Preferred Units**"), the 9¼% Series E Cumulative Redeemable Preferred Units (the "**Series E Preferred Units**"), the 8¾% Series F Cumulative Redeemable Preferred Units (the "**Series F Preferred Units**"), the 8⅞% Series X Cumulative Redeemable Preferred Units (the "**Series X Preferred Units**") and the 8⅞% Series Y Cumulative Redeemable Preferred Units (the "**Series Y Preferred Units**"). Notwithstanding the differing allocation rights set forth in Section 4 below that apply to the Series A, B, C, D and F Preferred Units (as compared to the Series E, G, X and Y Preferred Units), for purposes of this Amendment, those Series A, B, C, D and F Preferred Units and any future series of preferred units that rank in parity with those series also shall be considered Parity Preferred Units to the Series E, G, X, and Y Preferred Units.

(c) **"Priority Return"** means an amount equal to [___]% per annum of the Liquidation Preference per Series G Preferred Unit, commencing on the date of issuance of such Series G Preferred Unit, determined on the basis of a 360-day year of twelve 30-day months, and for any

period shorter than a full quarterly period for which distributions are computed, the amount of the distributions payable will be based on the ratio of the actual number of days elapsed in such period to ninety (90) days, cumulative to the extent not distributed for any given distribution period pursuant to Section 3, hereof, commencing on the date of the issuance of such Series G Preferred Unit.

(d) **"PTP"** means a "publicly traded partnership" within the meaning of Section 7704 of the Code.

Section 2. Designation and Number. Pursuant to Section 4.2(a) of the Partnership Agreement, a series of Partnership Units in the Partnership designated as the "[___]% Series G Cumulative Redeemable Preferred Units" (the **"Series G Preferred Units")** is hereby established. The number of Series G Preferred Units shall be _____. The holders of Series G Preferred Units shall not have any Percentage Interest (as such term is defined in the Partnership Agreement) in the Partnership.

Section 3. Distributions. (a) Payment of Distributions. Subject to the rights of holders of Parity Preferred Units as to the payment of distributions pursuant to Section 5.1 of the Partnership Agreement, holders of Series G Preferred Units shall be entitled to receive, when, as and if declared by the Partnership acting through the General Partner, the Priority Return. Such Priority Return shall be cumulative, shall accrue from the original date of issuance of the Series G Preferred Units and, notwithstanding Section 5.1 of the Partnership Agreement, will be payable (i) quarterly in arrears on March 31, June 30, September 30 and December 31 of each year commencing on December 31, 2002, and (ii) in the event of (A) a redemption of Series G Preferred Units, or (B) an exchange of Series G Preferred Units into Series G Preferred Stock, on the redemption date or the exchange date, as applicable (each a **"Series G Preferred Unit Distribution Payment Date"**). The amount of the distribution payable for any period will be computed on the basis of a 360-day year of twelve 30-day months and for any period shorter than a full quarterly period for which distributions are computed, the amount of the distribution payable will be computed based on the ratio of the actual number of days elapsed in such period to ninety (90) days. If any date on which distributions are to be made on the Series G Preferred Units is not a Business Day (as defined herein), then payment of the distribution to be made on such date will be made on the Business Day immediately preceding such date with the same force and effect as if made on such date. Distributions on the Series G Preferred Units will be made to the holders of record of the Series G Preferred Units on the relevant record dates to be fixed by the Partnership acting through the General Partner, which record dates shall in no event exceed fifteen (15) Business Days prior to the relevant Series G Preferred Unit Distribution Payment Date (the "**Series G Preferred Unit Partnership Record Date**").

(b) Prohibition on Distribution. No distributions on Series G Preferred Units shall be authorized by the General Partner or paid or set apart for payment by the Partnership at any such time as the terms and provisions of any agreement of the Partnership or the General Partner,

including any agreement relating to their indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or to the extent that such authorization or payment shall be restricted or prohibited by law.

(c) Distributions Cumulative. Distributions on the Series G Preferred Units will accrue, whether or not declared, whether or not the terms and provisions of any agreement of the Partnership or the General Partner, including any agreement relating to its indebtedness at any time prohibit the current payment of distributions, whether or not the Partnership has earnings, whether or not there are funds legally available for the payment of such distributions and whether or not such distributions are authorized. Accrued but unpaid distributions on the Series G Preferred Units will accumulate as of the Series G Preferred Unit Distribution Payment Date on which they first become payable. Distributions on account of arrears for any past distribution periods may be declared and paid at any time, without reference to a regular Series G Preferred Unit Distribution Payment Date to holders of record of the Series G Preferred Units on the record date fixed by the Partnership acting through the General Partner which date shall not exceed fifteen (15) Business Days prior to the payment date. Accumulated and unpaid distributions will not bear interest.

(d) Priority as to Distributions. Subject to the provisions of Article 13 of the Partnership Agreement:

(i) so long as any Series G Preferred Units are outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Partnership Interest ranking junior as to the payment of distributions or rights upon a voluntary or involuntary liquidation, dissolution or winding-up of the Partnership to the Series G Preferred Units (collectively, "**Junior Units**"), nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series G Preferred Units, any Parity Preferred Units or any Junior Units, unless, in each case, all distributions accumulated on all Series G Preferred Units and all classes and series of outstanding Parity Preferred Units have been paid in full. The foregoing sentence shall not prohibit (x) distributions payable solely in Junior Units, or (y) the conversion of Junior Units or Parity Preferred Units into Partnership Interests ranking junior to the Series G Preferred Units as to distributions and rights upon involuntary or voluntary liquidation, dissolution or winding up of the Partnership or (z) the redemption of Partnership Interests corresponding to Series G Preferred Stock, Parity Preferred Stock or Junior Stock to be purchased by the General Partner pursuant to the Articles of Incorporation of the General Partner with respect to the General Partner's common stock and comparable provisions in the Articles of Incorporation with respect to other classes or series of capital stock of the General Partner to preserve the General Partner's status as a real estate investment trust, provided that such redemption shall be upon the same terms as the corresponding purchase pursuant to the Articles of Incorporation.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not irrevocably deposited in trust for payment) upon the Series G Preferred Units, all distributions authorized and declared on the Series G Preferred Units and all classes or series of outstanding Parity Preferred Units shall be authorized and declared so that the amount of distributions authorized and declared per Series G Preferred Unit and such other classes or series of Parity Preferred Units shall in all cases bear to each other the same ratio that accrued distributions per Series G Preferred Unit and such other classes or series of Parity Preferred Units (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Units do not have cumulative distribution rights) bear to each other.

(e) No Further Rights. Holders of Series G Preferred Units shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

Section 4. Allocations. Section 6.1(a)(ii) of the Partnership Agreement is amended to read, in its entirety, as follows:

> "(ii)(A) Notwithstanding anything to the contrary contained in this Agreement, in any taxable year: (1) the holders of Series A, B, C, D and F Preferred Units shall first be allocated an amount of gross income equal to the Priority Return distributed to such holders in such taxable year, and (2) subject to any prior allocation of Profit pursuant to the loss chargeback set forth in Section 6.1(a)(ii)(B) below, the holders of Series E, G, X and Y Preferred Units shall then be allocated an amount of Profit equal to the Priority Return distributed to such holders either in such taxable year or in prior taxable years to the extent that such distributions have not previously been matched with an allocation of Profit pursuant to this Section 6.1(a)(ii)(A)(2).
>
> (B) After the Capital Account balances of all Partners other than holders of any series of Preferred Units have been reduced to zero, Losses of the Partnership that otherwise would be allocated so as to cause deficit Capital Account balances for those other Partners shall be allocated to the holders of the Series A, B, C, D, E, F, G, X and Y Preferred Units in proportion to the positive balances of their Capital Accounts until those Capital Account balances have been reduced to zero. If Losses have been allocated to the holders of the Series A, B, C, D, E, F, G, X and Y Preferred Units pursuant to the preceding sentence, the first subsequent Profits shall be allocated to those preferred partners so as to recoup, in reverse order, the effects of the loss allocations.
>
> (C) Upon liquidation of the Partnership or the interest of the holders of Series A, B, C, D, E, F, G, X or Y Preferred Units in the Partnership: (1) items of gross income or deduction shall first be allocated to the holders of Series A, B, C, D and F Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account

balances of such holders shall equal the amount of their Liquidation Preferences, and (2) an amount of Profit or Loss shall then be allocated to the holders of Series E, G, X and Y Preferred Units in a manner such that, immediately prior to such liquidation, the Capital Account balances of such holders shall equal the amount of their Liquidation Preferences."

Section 5. Optional Redemption. (a) Right of Optional Redemption. Except as otherwise provided herein, the Series G Preferred Units may not be redeemed prior to the fifth (5th) anniversary of the issuance date. On or after such date, the Partnership shall have the right to redeem the Series G Preferred Units, in whole (and not in part), at any time, upon not less than 30 nor more than 60 days written notice, at a redemption price, payable in cash, equal to the Liquidation Preference (the **"Series G Redemption Price**"). The Redemption Right given to Limited Partners in Section 8.6 of the Partnership Agreement shall not be available to the holders of the Series G Preferred Units and all references to Limited Partners in said Section 8.6 (and related provisions of the Partnership Agreement) shall not include holders of the Series G Preferred Units.

(b) Procedures for Redemption. (i) Notice of redemption will be (A) faxed, and (B) mailed by the Partnership, by certified mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series G Preferred Units at their respective addresses as they appear on the records of the Partnership. No failure to give or defect in such notice shall affect the validity of the proceedings for the redemption of any Series G Preferred Units except as to the holder to whom such notice was defective or not given. In addition to any information required by law each such notice shall state: (m) the redemption date, (n) the Series G Redemption Price, (o) the aggregate number of Series G Preferred Units to be redeemed, (p) as provided in Section 5(b)(ii) below, the place or places where evidence of the surrender of such Series G Preferred Units shall be delivered for payment of the Series G Redemption Price, (q) that distributions on the Series G Preferred Units to be redeemed will cease to accumulate on such redemption date and (r) that payment of the Series G Redemption Price will be made upon presentation of evidence of the surrender of such Series G Preferred Units as set forth in Section 5(b)(ii) below.

(ii) If the Partnership gives a notice of redemption in respect of Series G Preferred Units (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, the Partnership will deliver into escrow with an escrow agent acceptable to the Partnership and the holders of the Series G Preferred Units (the "**Escrow Agent**") the Series G Redemption Price and an executed Redemption Agreement, in substantially the form attached hereto as Exhibit A (the "**Redemption Agreement**"), and an Amendment to the Agreement of Limited Partnership evidencing the redemption, in substantially the form attached hereto as Exhibit B. The holders of the Series G Preferred Units shall also, by 12:00 noon, New York City time, on the redemption date, deliver into escrow with the Escrow Agent an executed Redemption Agreement and an executed Amendment to the Agreement of Limited Partnership evidencing the

redemption. Upon delivery of all of the above-described items by both parties, Escrow Agent shall release the Series G Redemption Price to the holders of the Series G Preferred Units and the fully-executed Redemption Agreement and Amendment to Agreement of Limited Partnership to both parties. On and after the date of redemption, distributions will cease to accumulate on the Series G Preferred Units called for redemption, unless the Partnership defaults in the payment thereof. If any date fixed for redemption of Series G Preferred Units is not a Business Day, then payment of the Series G Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the Series G Redemption Price is improperly withheld or refused and not paid by the Partnership, distributions on such Series G Preferred Units will continue to accumulate from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable Series G Redemption Price.

Section 6. Voting Rights. (a) General. Holders of the Series G Preferred Units will not have any voting rights or right to consent to any matter requiring the consent or approval of the Limited Partners, except as set forth in Section 14.1 of the Partnership Agreement and in this Section 6. (Solely for purposes of Section 14.1 of the Partnership Agreement, each Series G Preferred Unit shall be treated as one Partnership Unit.) If and for so long as the General Partner holds any Series G Preferred Units, the General Partner shall not have any voting rights with respect to such Series G Preferred Units and such Series G Preferred Units shall not be counted in determining the number of such units outstanding for the purpose of determining whether the holders of such units have granted any approval called for hereunder.

(b) Certain Voting Rights. So long as any Series G Preferred Units remain outstanding, the Partnership shall not, without the affirmative vote of the holders of at least a majority of the Series G Preferred Units outstanding at the time:

(i) authorize or create, or increase the authorized or issued amount of, any class or series of Partnership Interests ranking senior to the Series G Preferred Units with respect to payment of distributions or rights upon liquidation, dissolution or winding-up or reclassify any Partnership Interests into any such Partnership Interest, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such Partnership Interests (for this purpose, partnership interests that rank in parity with the Series A, B, C, D and F Preferred Units or other series with equivalent parity shall not be treated as ranking senior to, and shall be treated as in parity with, the Series G Preferred Units and any other series that rank in parity with the Series G Preferred Units);

(ii) designate or create, or increase the authorized or issued amount of, any Parity Preferred Units or reclassify any authorized Partnership Interests into any such Parity Preferred

Units, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, but only to the extent such Parity Preferred Units are issued to an Affiliate of the Partnership on terms that differ from the terms of such series of Parity Preferred Units issued to the public or non-Affiliates of the Partnership (for purposes of this Section 6(b)(ii), an issuance to the General Partner shall not be treated as an issuance to an Affiliate of the Partnership to the extent the issuance of such Partnership Interests was to allow the General Partner to issue corresponding preferred stock to persons who are not Affiliates);

(iii) either (A) exchange shares, consolidate, merge into or with, or convey, transfer or lease its assets substantially as an entirety to, any corporation or other entity or (B) amend, alter or repeal the provisions of the Partnership Agreement, whether by merger, consolidation or otherwise, that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series G Preferred Units or the holders thereof; provided, however, that with respect to the occurrence of a share exchange, merger, consolidation or a sale or lease of all of the Partnership's assets as an entirety, so long as (1) the Partnership is the surviving entity and the Series G Preferred Units remain outstanding with the terms thereof unchanged, or (2) the resulting, surviving or transferee entity (I) is a partnership, limited liability company or other pass-through entity organized under the laws of any state, (II) is not taxable as a corporation for U.S. federal income tax purposes, and (III) substitutes for the Series G Preferred Units other interests in such entity having substantially the same terms and rights as the Series G Preferred Units, including with respect to distributions, voting rights and rights upon liquidation, dissolution or winding-up, then the occurrence of any such event shall not be deemed to materially and adversely affect such powers, special rights, preferences, privileges or voting powers of the holders of the Series G Preferred Units; and provided further that any increase in the amount of Partnership Interests or the creation or issuance of any other class or series of Partnership Interests, in each case ranking (y) junior to the Series G Preferred Units with respect to payment of distributions or the distribution of assets upon liquidation, dissolution or winding-up, or (z) on a parity to the Series G Preferred Units with respect to payment of distributions or the distribution of assets upon liquidation, dissolution or winding-up, to the extent such Partnership Interests are not issued to an Affiliate of the Partnership (an issuance to the General Partner shall not be treated as an issuance to an Affiliate of the Partnership to the extent the issuance of such Partnership Interests was to allow the General Partner to issue corresponding preferred stock to persons who are not Affiliates of the Partnership) such issuance shall not be deemed to materially and adversely affect such powers, special rights, preferences, privileges or voting powers (for this purpose, partnership interests that rank in parity with the Series A, B, C, D and F Preferred Units or other series with equivalent parity shall not be treated as ranking senior to, and shall be treated as in parity with, the Series G Preferred Units and any other series that rank in parity with the Series G Preferred Units); or

(iv) increase the authorized or issued amount of Series G Preferred Units.

In addition to the foregoing, the Partnership will not (x) enter into any contract, mortgage, loan or other agreement that prohibits or restricts, or has the effect of prohibiting or restricting, the ability of a holder of the Preferred Units to exercise its rights set forth herein to effect in full an exchange or redemption pursuant to Section 8, below, except with the written consent of such holder; or (y) amend, alter, or repeal or waive Sections 7.6 or 11.3(f) of the Partnership Agreement without the affirmative vote of at least a majority of the Series G Preferred Units outstanding at the time.

Section 7. Transfer Restrictions. The holders of Series G Preferred Units shall be subject to all of the provisions of Section 11 of the Partnership Agreement except Section 11.3(b), as modified by this Section 7. Except as otherwise provided, if the General Partner's consent to a transfer of Series G Preferred Units is required by Section 11.3 of the Partnership Agreement, the General Partner agrees not to unreasonably withhold that consent. Subject to the consent of the General Partner, which shall not be unreasonably withheld or delayed, the Series G Preferred Units may be transferred to a maximum of five (5) persons. At no time shall the number of holders of the Series G Preferred Units exceed five.

Section 8. Exchange Rights. (a) Right to Exchange. (i) All, but not less than all, of the Series G Preferred Units will be exchangeable at any time on or after the tenth (10th) anniversary of the date of issuance, at the option of the Partnership or upon the affirmative vote of the holders of a majority of the outstanding Series G Preferred Units, for authorized but previously unissued shares of [___]% Series G Cumulative Redeemable Preferred Stock of the General Partner (the **"Series G Preferred Stock**") at an exchange rate of one share of Series G Preferred Stock for one Series G Preferred Unit, subject to adjustment as described below (the **"Series G Exchange Price**"); provided that all, but not less than all, of the Series G Preferred Units will become exchangeable for Series G Preferred Stock at any time upon the affirmative vote of the holders of a majority of the outstanding Series G Preferred Units (x) if at any time full distributions shall not have been timely made on any Series G Preferred Unit with respect to six (6) prior quarterly distribution periods, whether or not consecutive; provided, however, that a distribution in respect of Series G Preferred Units shall be considered timely made if made within two (2) Business Days after the applicable Series G Preferred Unit Distribution Payment Date if at the time of such late payment there shall not be any prior quarterly distribution periods in respect of which full distributions were not timely made, (y) upon receipt by a holder or holders of Series G Preferred Units of (1) notice from the General Partner that the General Partner or the Partnership has become aware of facts that will or likely will cause the Partnership to become a PTP or takes the position that the Partnership is, or upon consummation of an identified event in the immediate future will be, a PTP, and (2) an opinion rendered by an outside nationally recognized independent counsel familiar with such matters addressed to a holder or holders of Series G Preferred Units, that the Partnership is or likely is, or upon the occurrence of a defined event in the immediate future will be or likely will be a PTP, or (z) at any time (1) a holder of Series G Preferred Units concludes (in the reasonable judgment of the holder) that it is imminent that the Partnership will not or likely will not satisfy the income and

asset tests of Section 856 of the Internal Revenue Code of 1986, as amended (the **"Code"**), for a taxable year if the Partnership were a real estate investment trust within the meaning of the Code, (2) such holder delivers to the General Partner an opinion of nationally recognized independent counsel to the effect that it is imminent that the Partnership will not or likely will not satisfy the income and asset tests of Section 856 of the Code for a taxable year if the Partnership were a real estate investment trust within the meaning of the Code, and (3) such failure would create a meaningful risk that a holder of the Series G Preferred Units would fail to maintain its qualification as a real estate investment trust.

In addition to and not in limitation of the foregoing, all, but not less than all, of the Series G Preferred Units may be exchanged (regardless of whether held by GSEP 2002B Realty Corp. ("**Contributor**")) upon the affirmative vote of the holders of a majority of the outstanding Series G Preferred Units for Series G Preferred Stock (but only if the exchange in whole may be accomplished consistently with the ownership limitations set forth under the Article IV of the Charter of the General Partner, taking into account exceptions thereto) if at any time (i) such holders conclude based on results or projected results that there exists (in the reasonable judgment of such holders) an imminent and substantial risk that the Series G Preferred Units represent or will represent more than 19.5% of the total profits of or capital interests in the Partnership for a taxable year, (ii) such holders deliver to the General Partner an opinion of nationally recognized independent counsel, reasonably acceptable to the General Partner, to the effect that there is a substantial risk that its interest in the Partnership does not or will not satisfy the 19.5% limit, and (iii) the General Partner agrees with the conclusions referred to in clauses (i) and (ii) of this sentence, such agreement not to be unreasonably withheld.

(ii) Notwithstanding anything to the contrary set forth in Section 8(a)(i), if an Exchange Notice (as hereinafter defined) has been delivered to the General Partner, then the General Partner may, at its option, elect to redeem or cause the Partnership to redeem all (but not a portion) of the outstanding Series G Preferred Units for cash in an amount equal to the Liquidation Preference per Series G Preferred Unit. The General Partner may exercise its option to redeem the Series G Preferred Units for cash pursuant to this Section 8(a)(ii) by giving each holder of record of Series G Preferred Units notice of its election to redeem for cash, within five (5) Business Days after receipt of the Exchange Notice, by (m) fax, and (n) registered mail, postage paid at the address of each holder as it may appear on the records of the Partnership stating (A) the redemption date, which shall be no later than sixty (60) days following the receipt of the Exchange Notice, (B) the redemption price, (C) the place or places where the Series G Preferred Units are to be surrendered for payment of the redemption price, (D) that distributions on the Series G Preferred Units will cease to accrue on such redemption date; (E) that payment of the redemption price will be made upon presentation and surrender of the Series G Preferred Units and (F) the aggregate number of Series G Preferred Units to be redeemed.

(iii) If an exchange of Series G Preferred Units pursuant to Section 8(a)(i) would violate the provisions on ownership limitation of the General Partner set forth in Article IV of the Charter of

the General Partner (taking into account exceptions thereto) with respect to the Series G Preferred Stock, the General Partner shall give written notice thereof to each holder of record of Series G Preferred Units, within five (5) Business Days following receipt of the Exchange Notice, by (m) fax, and (n) registered mail, postage prepaid, at the address of each such holder set forth in the records of the Partnership. In such event, each holder of Series G Preferred Units shall be entitled to exchange, pursuant to the provisions of Section 8(b) a number of Series G Preferred Units which would comply with the provisions on the ownership limitation of the General Partner set forth in such Article IV of the Charter of the General Partner and any Series G Preferred Units not so exchanged (the **"Excess Units**") shall be redeemed by the Partnership for cash in an amount equal to the Liquidation Preference. The written notice of the General Partner shall state (A) the number of Excess Units held by such holder, (B) the redemption price of the Excess Units, (C) the date on which such Excess Units shall be redeemed, which date shall be no later than sixty (60) days following the receipt of the Exchange Notice, (D) the place or places where such Excess Units are to be surrendered for payment of the redemption price, (E) that distributions on the Excess Units will cease to accrue on such redemption date, and (F) that payment of the redemption price will be made upon presentation and surrender of such Excess Units. If an exchange would result in Excess Units, as a condition to such exchange, each holder of such units agrees to provide representations and covenants reasonably requested by the General Partner relating to (1) the widely held nature of the interests in such holder, sufficient to assure the General Partner that the holder's ownership of stock of the General Partner (without regard to the limits described above) will not cause any Person (as such term is defined in the Charter of the General Partner) to own stock of the General Partner in an amount that would cause such Person not to comply with the provisions of the ownership limitation of the General Partner set forth in such Article IV of the Charter of the General Partner; and (2) to the extent such holder can so represent and covenant without obtaining information from its owners, the holder's ownership of tenants of the Partnership and its affiliates.

To the extent the General Partner would not be able to pay the cash set forth above in exchange for the Excess Units, and to the extent consistent with the Charter, the General Partner agrees that it will grant to the holders of the Series G Preferred Units exceptions to the Beneficial Ownership Limit and Constructive Ownership Limit set forth in the Charter sufficient to allow such holders to exchange all of their Series G Preferred Units for Series G Preferred Stock, provided such holders furnish to the General Partner representations acceptable to the General Partner in its sole and absolute discretion which assure the General Partner that such exceptions will not jeopardize the General Partner's tax status as a REIT for purposes of federal and applicable state law.

Notwithstanding any provision of the Agreement to the contrary, no holder of Series G Preferred Units shall be entitled to effect an exchange of Series G Preferred Units for Series G Preferred Stock to the extent that the ownership or right to acquire such shares would cause the holder or any other Person or, in the opinion of counsel selected by the General Partner, may cause the holder or any other Person, to violate the restrictions on ownership and transfer of

Series G Preferred Stock set forth in the Charter (taking into account exceptions thereto). To the extent any such attempted exchange for Series G Preferred Stock would be in violation of the previous sentence, it shall be *void ab initio* and such holder of Series G Preferred Units shall not acquire any rights or economic interest in the Series G Preferred Stock otherwise issuable upon such exchange.

(iv) The redemption of Series G Preferred Units described in Sections 8(a)(ii) and 8(a)(iii) shall be subject to the provisions of Sections 5(b)(i) and 5(b)(ii); provided, however, that the term "redemption price" in such Section shall be read to mean the Liquidation Preference per Series G Preferred Unit being redeemed.

(b) Procedure for Exchange. (i) Any exchange shall be exercised pursuant to a notice of exchange (the **"Exchange Notice**") delivered to the General Partner by the holder who is exercising such exchange right, by (a) fax and (b) by certified mail postage prepaid. The exchange of Series G Preferred Units may be effected after the fifth (5th) Business Day following receipt by the General Partner of the Exchange Notice by delivering certificates, if any, representing such Series G Preferred Units to be exchanged together with, if applicable, written notice of exchange and a proper assignment of such Series G Preferred Units to the office of the General Partner maintained for such purpose. Currently, such office is c/o PS Business Parks, Inc., 701 Western Avenue, Glendale, California 91201, Attention: Jack E. Corrigan. Each exchange will be deemed to have been effected immediately prior to the close of business on the date on which such Series G Preferred Units to be exchanged (together with all required documentation) shall have been surrendered and notice shall have been received by the General Partner as aforesaid and the Series G Exchange Price shall have been paid. Any Series G Preferred Stock issued pursuant to this Section 8 shall be delivered, as promptly as practicable, as shares which are duly authorized, validly issued, fully paid and nonassessable, free of pledge, lien, encumbrance or restriction other than those provided in the Charter, the Bylaws of the General Partner, the Securities Act of 1933, as amended, and relevant state securities or blue sky laws.

(ii) In the event of an exchange of Series G Preferred Units for shares of Series G Preferred Stock, an amount equal to the accrued and unpaid Priority Return, whether or not declared, to the date of exchange on any Series G Preferred Units tendered for exchange shall (a) accrue on the shares of the Series G Preferred Stock into which such Series G Preferred Units are exchanged, and (b) continue to accrue on such Series G Preferred Units, which shall remain outstanding following such exchange, with the General Partner as the holder of such Series G Preferred Units. Notwithstanding anything to the contrary set forth herein, in no event shall a holder of a Series G Preferred Unit that was validly exchanged into Series G Preferred Stock pursuant to this section (other than the General Partner now holding such Series G Preferred Unit), receive a distribution from the Partnership, if such holder, after exchange, is entitled to receive a distribution from the General Partner with respect to the share of Series G Preferred Stock for which such Series G Preferred Unit was exchanged or redeemed.

(iii) Fractional shares of Series G Preferred Stock are not to be issued upon exchange but, in lieu thereof, the General Partner will pay a cash adjustment based upon the fair market value of the Series G Preferred Stock on the day prior to the exchange date as determined in good faith by the Board of Directors of the General Partner.

(c) Adjustment of Series G Exchange Price. (i) The Series G Exchange Price is subject to adjustment upon certain events, including, (a) subdivisions, combinations and reclassification of the Series G Preferred Stock, and (b) distributions to all holders of Series G Preferred Stock of evidences of indebtedness of the General Partner or assets (including securities, but excluding dividends and distributions paid in cash out of equity applicable to Series G Preferred Stock).

(ii) In case the General Partner shall be a party to any transaction (including, without limitation, a merger, consolidation, statutory share exchange, tender offer for all or substantially all of the General Partner's capital stock or sale of all or substantially all of the General Partner's assets), in each case as a result of which the Series G Preferred Stock will be converted into the right to receive shares of capital stock, other securities or other property (including cash or any combination thereof), each Series G Preferred Unit will thereafter be exchangeable into the kind and amount of shares of capital stock and other securities and property receivable (including cash or any combination thereof) upon the consummation of such transaction by a holder of that number of shares of Series G Preferred Stock or fraction thereof into which one Series G Preferred Unit was exchangeable immediately prior to such transaction. The General Partner may not become a party to any such transaction unless the terms thereof are consistent with the foregoing. In addition, so long as the Contributor or any of its permitted successors or assigns holds any Series G Preferred Units, the General Partner shall not, without the affirmative vote of the holders of at least a majority of the Series G Preferred Units outstanding at the time: (a) designate or create, or increase the authorized or issued amount of, any class or series of shares ranking senior to the Series G Preferred Stock with respect to the payment of distributions or rights upon liquidation, dissolution or winding-up or reclassify any authorized shares of the General Partner into any such shares, or create, authorize or issue any obligations or securities convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of the Charter or Bylaws of the General Partner, whether by merger, consolidation or otherwise, that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series G Preferred Stock or the holders thereof; provided, however, that any increase in the amount of authorized Preferred Shares or the creation or issuance of any other series or class of Preferred Shares, or any increase in the amount of authorized shares of each class or series, in each case ranking either (1) junior to the Series G Preferred Stock with respect to the payment of distributions and the distribution of assets upon liquidation, dissolution or winding-up, or (2) on a parity with the Series G Preferred Stock with respect to the payment of distributions and the distribution of assets upon liquidation, dissolution or winding-up shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. In the event of a conflict between the provisions of this Section

8(c)(ii) and any provision of the Partnership Agreement, the provisions of this Section 8(c)(ii) shall control.

Section 9. No Conversion Rights. Except as set forth in Section 8, the holders of the Series G Preferred Units shall not have any rights to convert such units into shares of any other class or series of stock or into any other securities of, or interest in, the Partnership.

Section 10. No Sinking Fund. No sinking fund shall be established for the retirement or redemption of Series G Preferred Units.

Section 11. Exhibit A to Partnership Agreement. In order to duly reflect the issuance of the Series G Preferred Units provided for herein, the Partnership Agreement is hereby further amended pursuant to Section 12.3 thereof by deleting Exhibit A thereto and replacing such Exhibit A with Exhibit C attached hereto.

Section 12. Inconsistent Provisions. Nothing to the contrary contained in the Partnership Agreement shall limit any of the rights or obligations set forth in this Amendment.

IN WITNESS WHEREOF this Amendment has been executed as of the date first above written.

PS BUSINESS PARKS, INC.

By:_____
Name:
Title:

Exhibit A

FORM OF
REDEMPTION AGREEMENT

THIS REDEMPTION AGREEMENT (the "Agreement") is entered into effective as of the ____ day of _____, _____, by and between GSEP 2002B Realty Corp., a Delaware corporation (the "Retiring Partner"), and PS Business Parks, L.P., a California limited partnership (the "Partnership").

RECITALS:

WHEREAS, the Agreement of Limited Partnership of the Partnership, dated as of March 17, 1998, has been amended from time to time and was amended by an Amendment to Agreement of Limited Partnership Relating to [___]% Series G Cumulative Redeemable Preferred Units (the "Amendment");

WHEREAS, the Retiring Partner owns _____ of the [___]% Series G Cumulative Redeemable Preferred Units in the Partnership (the "Series G Preferred Units"); and

WHEREAS, the Partnership desires to redeem the Series G Preferred Units of the Retiring Partner, and the Retiring Partner desires to liquidate its Series G Preferred Units (the "Redemption") pursuant to the Amendment and based on the representations and under the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations and agreements herein contained, the parties hereto, intending to be legally bound, do hereby covenant and agree as follows:

1. Liquidation of Retiring Partner. In satisfaction of the terms and conditions set forth herein and in the Amendment, the Retiring Partner's Series G Preferred Units are hereby completely liquidated and the Retiring Partner immediately and automatically ceases to be a limited partner in the Partnership in exchange for the payment of the Series G Redemption Price (as defined in the Amendment and in accordance with the provisions set forth in the Amendment) and for other good and valuable consideration.

2. Representations of Retiring Partner. The Retiring Partner represents and warrants to the Partnership that:

   a. The Retiring Partner is duly organized and validly existing under the laws of the State of Delaware and has been duly authorized by all necessary and appropriate corporate action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Retiring Partner, enforceable against the Retiring Partner in accordance with its terms, except insofar

as such enforceability may be affected by bankruptcy, insolvency or similar laws affecting creditor's rights generally and the availability of any particular equitable remedy.

b. The Retiring Partner has not sold, assigned or otherwise disposed of all or any portion of the Series G Preferred Units and the Series G Preferred Units are free of any liens, security interests, encumbrances or other restrictions, whether existing of record or otherwise.

c. The execution of this Agreement by the Retiring Partner and the performance of his obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Retiring Partner is a party or by which its assets are bound.

d. Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Retiring Partner or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Retiring Partner is a party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Retiring Partner.

3. Representations and Warranties of the Partnership. The Partnership represents and warrants to the Retiring Partner as follows:

a. The Partnership is duly organized and validly existing under the laws of the State of California and has been duly authorized by all necessary and appropriate partnership action to enter into this Agreement and to consummate the transactions contemplated herein. This Agreement is a valid and binding obligation of the Partnership enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

b. The execution of this Agreement by the Partnership and the performance of its obligations hereunder will not violate any contract, mortgage, indenture, or other similar restriction to which the Partnership is a party or by which the Partnership is bound.

c. Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated herein nor fulfillment of or compliance with the terms and conditions hereof (a) conflict with or will result in a breach of any of the terms, conditions or provisions of (i) the organizational and governing documents of the Partnership or (ii) any agreement, order, judgment, decree, arbitration award, statute, regulation or instrument to which the Partnership is a

party or by which it or its assets are bound, or (b) constitutes or will constitute a breach, violation or default under any of the foregoing. No consent or approval, authorization, order, regulation or qualification of any governmental entity or any other person is required for the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Partnership.

d. Consummation of the Redemption by the Partnership will not render the Partnership insolvent under California partnership law.

4. Indemnification.

a. The Retiring Partner covenants and agrees to indemnify the Partnership and hold it harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of the Retiring Partner under this Agreement, and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

b. The Partnership covenants and agrees to indemnify the Retiring Partner and hold him harmless against and with respect to any and all damage, loss, liability, deficiency, cost and expense, including reasonable attorneys' fees, (i) resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of such Partnership under this Agreement and (ii) from any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expenses incident to any of the foregoing.

5. Survival of Representations and Warranties. All representations, warranties, covenants and agreements of any of the parties hereto made in this Agreement shall survive the execution and delivery hereof, the Closing hereunder, the execution and delivery of all instruments and documents executed in connection therewith.

6. Integration, Interpretation and Miscellaneous. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter herein and it shall not be changed or terminated orally. This Agreement shall be construed in accordance with the laws of the state of California. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, and successors, or successors and assigns, as the case may be. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

RETIRING PARTNER:

GSEP 2002B Realty Corp.

By: _____
Name:
Title:

PARTNERSHIP:

PS Business Parks, L.P.

By: PS Business Parks, Inc., its
General Partner

By: _____
Name:
Title:

Exhibit B

FORM OF
AMENDMENT TO
AGREEMENT OF LIMITED PARTNERSHIP
OF
PS BUSINESS PARKS, L.P.

This Amendment to Agreement of Limited Partnership of PS Business Parks, L.P. (the "Partnership"), dated as of _____ ___, _____ (this "Amendment") is entered into by the General Partner of the Partnership, PS Business Parks, Inc., and GSEP 2002B Realty Corp., a Delaware corporation, as a withdrawing Limited Partner of the Partnership (the "Withdrawing Partner").

WITNESSETH:

WHEREAS, capitalized terms used herein, unless otherwise defined, have the meanings assigned to such terms in the Agreement of Limited Partnership of the Partnership entered into as of March 17, 1998, as amended (the "Agreement").

WHEREAS, [pursuant to the redemption by the Partnership of all of the [___]% Series G Cumulative Redeemable Preferred Units pursuant to the terms and conditions set forth in that certain Contribution Agreement by and between the Partnership and the Withdrawing Partner, dated as of October 29, 2002, and the Amendment to the Limited Partnership Agreement, dated October 29, 2002, the [___]% Series G Cumulative Redeemable Preferred Units of the Withdrawing Partner have been redeemed by the Partnership and the General Partner desires to amend the Partnership Agreement to (a) set forth a revised list of all Partners of the Partnership as of the date hereof and (b) reflect the withdrawal of the Withdrawing Partner from the Partnership] OR

[pursuant to the exchange by the Withdrawing Partner of all of the [___]% Series G Cumulative Redeemable Preferred Units for [___]% Series G Cumulative Redeemable Preferred Stock of the General Partner pursuant to the terms of conditions set forth in that certain Contribution Agreement by and between the Partnership and the Withdrawing Partner, dated as of October 29, 2002, and the Amendment to the Limited Partnership Agreement, dated October 29, 2002, the [___]% Series G Cumulative Redeemable Preferred Units of the Withdrawing Partner have been exchanged by the Withdrawing Partner for [___]% Series G Cumulative Redeemable Preferred Stock of the General Partner and the General Partner desires to amend the Partnership Agreement to (a) set forth a revised list of all Partners of the Partnership as of the date hereof and (b) reflect the withdrawal of the Withdrawing Partner from the Partnership];

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereby agree as follows:

1. This Amendment shall be deemed effective as of the date first above written. Except as amended hereby, the Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.

2. To evidence the exchange of the [___]% Series G Cumulative Redeemable Preferred Units of the Withdrawing Partner for [___]% Series G Cumulative Redeemable Preferred Stock of the General Partner and the withdrawal of the Withdrawing Partner as a Limited Partner of the Partnership, attached hereto as Schedule A is a current list of Partners of the Partnership as of the date hereof.

3. The Withdrawing Partner is entering into this Amendment to evidence its withdrawal as a Limited Partner of the Partnership.

4. This Amendment shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed by and construed in accordance with the laws of such state.

IN WITNESS WHEREOF, the undersigned has caused this Amendment to be executed and delivered as of the date first above written.

GENERAL PARTNER:

PS BUSINESS PARKS, INC.

By:_____
Name:
Title:

WITHDRAWING PARTNER

GSEP 2002B REALTY CORP.

By:_____
Name:
Title:

EXHIBIT 10.31

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

among

PS BUSINESS PARKS, L.P.

and

THE LENDERS LISTED HEREIN

as Lenders

and

Wells Fargo Bank, National Association,

as Agent

October 29, 2002

$100,000,000

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AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT, dated as of October 29, 2002 (as amended from time to time, the "Agreement"), by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), and the Lenders and other financial institutions that either now or in the future are parties hereto (collectively, the "Lenders" and each individually, a "Lender") and Wells Fargo Bank, National Association (the "Arranger" and "Administrative Agent"), as agent and representative for the Lenders (in such capacity the Arranger and Administrative Agent or any successor in such capacity is referred to herein collectively as the "Agent"). The Lenders and the Agent are collectively referred to herein as the "Lender Parties" and each individually as a "Lender Party". This Agreement amends and restates in its entirety that certain Revolving Credit Agreement dated as of August 6, 1998, as amended, by and between Borrower, the Lenders and Agent.

DEFINITIONS AND RELATED MATTERS

Definitions.

The following terms with initial capital letters have the following meanings:

"Accounts Payable" is defined in Section 6.1.

"Acquisition Price" means the aggregate purchase price for an asset, including bona fide purchase money financing provided by the seller and all other Debt encumbering such asset at the time of acquisition.

"Agent" is defined in the Preamble.

"Agent's Account" means the account of the Agent identified as such on Schedule 1.1A, or such other account as the Agent may hereafter designate by notice to the Borrower and each Lender Party.

"Agent's Offices" means the offices of the Agent identified as such on Schedule 1.1A, or such other offices as the Agent may hereafter designate by notice to the Borrower and each Lender Party.

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. The term "control" means the possession, directly or indirectly, of the power, whether or not exercised, to direct or cause the direction of the management or policies of a Person, whether through the ownership of Capital Stock, by contract or otherwise, and the terms "controlled" and "common control" have correlative meanings. Unless otherwise indicated, "Affiliate" refers to an Affiliate of any Borrower Party. Notwithstanding the

foregoing, in no event shall any Lender Party, any Affiliate of any Lender Party, or PSI be deemed to be an Affiliate of the Borrower.

"Agreement" is defined in the Preamble and includes all Schedules and Exhibits.

"Amended and Restated Closing Date" means October 29, 2002 or such later date on which all conditions set forth in Section 3.1 have been satisfied.

"Amended and Restated Revolving Loan Note" means a Note made by the Borrower payable to the order of a particular Lender, in the amount of such Lender's Revolving Commitment, which note is substantially in the form of Exhibit A-1, as amended (including any amendments and restatements thereof) from time to time.

"AMEX" means the American Stock Exchange.

"Applicable Law" means all applicable provisions of all (i) constitutions, treaties, statutes, laws, rules, regulations and ordinances of any Governmental Authority, (ii) Governmental Approvals and (iii) orders, decisions, judgments, awards and decrees of any Governmental Authority.

"Applicable Margin" means, with respect to each Loan, the respective percentages per annum determined, at any time, based on the range into which Borrower's Credit Rating then falls, in accordance with the table set forth below. Any change in Borrower's Credit Rating causing it to move to a different range on the table shall effect an immediate change in the Applicable Margin (including existing Loans). Promptly after learning of a change in the Borrower's Credit Rating, Agent shall give notice of such change to the Lenders and include in such notice the new Applicable Margin and the effective date of such change. In the event that more than one (1) different Credit Rating has been assigned, then (i) for so long as the initial Lender is the sole Lender hereunder (i.e., for so long as the Loans are not syndicated), the higher of the Credit Ratings will prevail, or (ii) otherwise, the lower of the Credit Ratings will prevail.

GRID A:

	Range of Borrower's Credit Rating	Applicable Margin for Base Rate Loans (% per annum)	Applicable Margin for LIBOR Loans (% per annum)
Level I	A-/A3 or better	0.0	0.650
Level II	BBB+/Baa1	0.0	0.700
Level III	BBB/Baa2	0.0	0.850
Level IV	BBB-/Baa3	0.0	0.900
Level V	Unrated or Below Investment Grade	0.0	See Grid B

GRID B:

	Leverage	Applicable Margin for Base Rate Loans (% per annum)	Applicable Margin for LIBOR Loans (% per annum)
Level I	≤ 25%	0.0	0.950
Level II	> 25% ≤ 35%	0.0	1.000
Level III	> 35% ≤ 45%	0.0	1.100
Level IV	> 45%	0.0	1.250

"Assignee Lender" means any Person to which an Assignment is made pursuant to Section 9.6.2.

"Assignment" and **"Assignment and Acceptance"** are defined in Section 9.6.2.

"Availability" means, on any date, the lesser of (i) an amount equal to Unencumbered Asset Value as of the end of the most recently concluded Fiscal Quarter for which the Borrower is, as of such date of determination, required to have reported to the Lenders pursuant to Section 5.1.5 hereof, multiplied by .50, and (ii) $100,000,000. Notwithstanding the foregoing, commencing on the Amended and Restated Closing Date, Availability shall be calculated pursuant to the Compliance Certificate delivered by the Borrower on the Amended and Restated Closing Date until such time as Availability is otherwise changed or modified under this Agreement.

"Available Financing" means the sum of all undrawn committed funds under credit facilities of the Borrower plus Cash and Cash Equivalents.

"Available Unsecured Liabilities" means the sum of Outstanding Unsecured Liabilities plus the positive difference (if any) between (i) the sum of all Revolving Commitments of all Lenders and (ii) the sum of all Revolving Commitment Usage of all Lenders.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time.

"Base Rate" means, at any time, a rate per annum equal to the greater of: (i) the per annum rate of interest most recently publicly announced by the Agent at its principal office in San Francisco as its prime rate for domestic commercial loans, or (ii) the Federal Funds Rate at such time plus 0.50%.

"Base Rate Loan" means a Loan that bears interest by reference to the Base Rate.

"Borrower" is defined in the Preamble, and includes any successor.

"Borrower Account" means the account of the Borrower maintained with Agent, identified as account number 4828-665364, or such other account as the Borrower may hereafter designate by notice to the Agent.

"Borrower Party" means the Borrower, Guarantor and any Subsidiary of the Borrower or Guarantor. "Borrower Parties" shall mean each of the foregoing Persons individually, and all of the foregoing Persons collectively.

"Borrowing" means a contemporaneous borrowing of Loans of the same Type.

"Borrowing Period" means, with respect to each LIBOR Loan, a period commencing on a LIBOR Business Day and ending one (1), two (2), three (3) or six (6) months thereafter, as specified by the Borrower pursuant to Section 2.1 or 2.2 hereof (or, if requested by the Borrower and available to all the Lenders, a period commencing on a LIBOR Business Day and ending less than thirty (30) days thereafter), provided that any such period that would otherwise end on a day that is not a LIBOR Business Day shall be extended to the next succeeding LIBOR Business Day unless such LIBOR Business Day falls in another calendar month, in which case such period shall end on the next preceding LIBOR Business Day.

"Business Day" means any day that is not a Saturday, Sunday or other day on which Lenders in San Francisco, California are authorized or obligated to close.

"Capital Expenditure Reserve" means, for any period, the amount equal to (i) $.95 annually, multiplied by (ii) the gross rentable square footage of all Real Property owned for the entirety of such period.

"Capital Expenditures" means, for any period, the expenditures (whether paid in cash or accrued and including Capitalized Leases entered into during the period) of the Borrower Parties during such period with respect to property and equipment that are capitalized on the balance sheets of the Borrower Parties in accordance with the Borrower Parties' current capitalization practice.

"Capital Lease" means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee which, in conformity with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Capital Stock" means, with respect to any Person, all Equity Interest and all Preferred Stock.

"Capitalization Rate" means nine and one-half percent (9.5%).

"Capitalized Leases" means all leases of the Borrower Parties of real or personal property that are required to be capitalized on the balance sheet of the Borrower Parties. The amount of any Capitalized Lease shall be the capitalized amount thereof.

"Cash" means money, currency or a credit balance in a Deposit Account.

"Cash Equivalents" means (i) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by an agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year after the date of acquisition thereof, (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof, maturing within 90 days after the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from any two of S&P, Moody's or Fitch Investors (or, if at any time no two of the foregoing shall be rating such obligations, then from such other nationally recognized rating services acceptable to Agent) and not listed for possible down-grade in Credit Watch published by S&P; (iii) commercial paper, other than commercial paper issued by any Borrower Party or any of their respective Affiliates, maturing no more than 90 days after the date of creation thereof and, at the time of acquisition, having a rating of at least A-2 or P-2 from either S&P or Moody's (or, if at any time neither S&P nor Moody's shall be rating such obligations, then the highest rating from such other nationally recognized rating services acceptable to Agent); (iv) domestic certificates of deposit, time deposits and bankers' acceptances which mature within one year after the date of acquisition thereof; and (v) overnight securities, repurchase agreements, or reverse repurchase agreements secured by any of the foregoing types of Securities or debt instruments issued, in each case, by (a) any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia or Canada having combined capital and surplus of not less than $250,000,000 or (b) any Lender.

"Change of Control" means the occurrence of any of the following events: (a) all or substantially all of the assets of the Borrower are sold, leased, exchanged or otherwise transferred to any Person or group of persons or entities acting in concert as a partnership or other group; (b) the Borrower is merged or consolidated with or into another corporation with the effect that the common stockholders of Borrower immediately prior to such merger or consolidation hold less than fifty-one percent (51%) of the ordinary voting power of the outstanding securities of the surviving corporation of such merger or the corporation resulting from such consolidation; (c) a change in the composition of the board of directors of the Borrower after the Amended and Restated Closing Date as a result of which fewer than a majority of the incumbent directors are directors who either (i) had been directors of the Borrower twenty-four (24) months prior to such change, or (ii) were elected, or nominated for election, to the board of directors with the affirmative votes of a majority of the directors who had been directors of the Borrower twenty-four (24) months prior to such change and who were still in office at the time of the election or nomination; or (d) a Person or group (as such term is used in Rule 13d-5 under the Securities Exchange Act of 1934) of Persons (other than PSI) and any Person eligible to file a statement on Schedule 13G pursuant to Rule 13d-1(b)(1) of the Securities Exchange Act of 1934) shall, as a result of a tender or exchange offer, open market purchases, merger, privately negotiated purchases or otherwise, have become, directly or

indirectly, the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities having twenty-five percent (25%) or more of the ordinary voting power of then outstanding securities of the Borrower.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commencement of Construction" with respect to a Real Property, means the commencement of material on-site work (including grading) or the commencement of a work of improvement on such Real Property.

"Commitments" means, collectively, with respect to each Lender, the Revolving Commitment.

"Compliance Certificate" is defined in Section 5.1.3.

"Consolidated Entities" means, collectively, (i) the Borrower, (ii) any other Person the accounts of which are consolidated or would be consolidated with those of any Borrower Party in the consolidated financial statements of such Borrower Party in accordance with GAAP, and (iii) all Unconsolidated Joint Ventures of which any Borrower Party or any Person defined in subclause (ii) above is a general partner.

"Construction-in-Process" means Real Property for which Commencement of Construction has occurred but such Real Property is not complete.

"Contingent Obligation" means, as to any Person, any obligation, direct or indirect, contingent or otherwise, of such Person (i) with respect to any Debt or other obligation of another Person, including any direct or indirect guarantee of such Debt (other than any endorsement for collection in the ordinary course of business) or any other direct or indirect obligation, by agreement or otherwise, to purchase or repurchase any such Debt or obligation or any security therefor, or to provide funds for the payment or discharge of any such Debt or obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), (ii) to provide funds to maintain the financial condition of any other Person, (iii) otherwise to assure or hold harmless the holders of Debt or other obligations of another Person against loss in respect thereof, or (iv) under Hedging Contracts. The amount of any Contingent Obligation under clause (i) or (ii) shall be the lesser of (a) the amount of such Debt or obligation guaranteed or otherwise supported thereby, or (b) the maximum amount guaranteed or supported by the Contingent Obligation. The amount of any obligation under a Hedging Contract shall be determined in accordance with standard methods of calculating credit exposure under similar arrangements as prescribed by the Agent from time to time, taking into account potential movements in interest rates, exchange rates or other relevant indices and the notional principal amount, term and termination provisions of the arrangement.

"Contractual Obligation" means, as applied to any Person, any provision of any security issued by that Person or of any agreement or other instrument to which that Person is a party or by which it or any of the properties owned or leased by it is bound or otherwise subject.

"Credit Rating" means the rating(s) or implied rating assigned by the Rating Agencies to Borrower's senior unsecured long term indebtedness.

"Debt" means, with respect to any Person, without duplication: (i) all obligations for borrowed money; (ii) all obligations evidenced by bonds, debentures, notes or other similar instruments; (iii) all obligations to pay the deferred purchase price of property or services; (iv) all Capitalized Leases; (v) all obligations of others secured by a Lien on any asset owned by such Person or Persons whether or not such obligation or liability is assumed; (vi) all obligations of such Person or Persons, contingent or otherwise, in respect of any letters of credit or bankers' acceptances; (vii) all Contingent Obligations; and (viii) all obligations under facilities for the discount or sale of receivables.

"Default" means any condition or event that, with the giving of notice or lapse of time or both, would, unless cured or waived, become an Event of Default.

"Defined Benefit Plan" means any plan subject to Title IV of ERISA that is not a Multiemployer Plan.

"Deposit Account" means a demand, time, savings, passbook or like account with a bank, savings and loan association, credit union or like organization, other than an account evidenced by a negotiable certificate of deposit.

"Depreciation and Amortization Expense" means (without duplication), for any period, the sum for such period of (i) total depreciation and amortization expense, whether paid or accrued, of the Borrower Parties and the Consolidated Entities, *plus* (ii) the Borrower Parties' and any Consolidated Entity's *pro rata* share of depreciation and amortization expenses of Unconsolidated Joint Ventures. For purposes of this definition, the *pro rata* share of depreciation and amortization expense of any Unconsolidated Joint Venture shall be deemed equal to the product of (i) the depreciation and amortization expense of such Unconsolidated Joint Venture, *multiplied by* (ii) the percentage of the total outstanding Capital Stock of such Person held by a Borrower Party or any Consolidated Entity, expressed as a decimal.

"Designated Market" means, with respect to any LIBOR Rate Loan, the London interbank LIBOR market or such other interbank LIBOR market as may be designated in writing from time to time by the Agent.

"Dollars" and "$" means lawful money of the United States of America.

"Domestic Lending Office" means the office, branch or Affiliate of Agent designated as its Domestic Lending Office or such other office, branch or Affiliate as the Agent may hereafter designate as its Domestic Lending Office for one or more Types of Loans by notice to the Borrower and the Agent.

"EBITDA" means, for any period, (i) Net Income for such period excluding gains (or losses) from debt restructuring, sales of Real Property or similar extraordinary items as determined pursuant to GAAP, *plus* (without duplication) (A) Interest Expense, (B) Tax Expense, and (C) Depreciation and Amortization Expense, in each case for such period,

including for the purpose of this calculation any equity in Net Income, *plus* (without duplication) (A) Interest Expense, (B) Tax Expense, and (C) Depreciation and Amortization Expense, in each case for such period, of Unconsolidated Joint Ventures.

"Environmental Damages" means all claims, judgments, damages, losses, penalties, liabilities (including strict liability), costs and expenses, including costs of investigation, remediation, defense, settlement and reasonable attorneys' fees and consultants' fees, that are incurred at any time as a result of the existence of Hazardous Material upon, about or beneath any Real Property or migrating to or from any Real Property, or arising in any manner whatsoever out of any violation of Environmental Requirements.

"Environmental Lien" means a Lien in favor of any Governmental Authority for Environmental Damages.

"Environmental Requirements" means all Applicable Laws relating or pertaining to Hazardous Materials, including without limitation all requirements pertaining to reporting, permitting, investigation and remediation of releases or threatened releases of Hazardous Materials into the environment, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

"Equity Interest" means, with respect to any Person, any share of capital stock of (or other ownership or profit interests in) such Person, any warrant, option or other right for the purchase or other acquisition from such Person of any share of capital stock of (or other ownership or profit interests in) such Person, any security convertible into or exchangeable for any share of capital stock of (or other ownership or profit interests in) such Person or warrant, right or option for the purchase or other acquisition from such Person of such shares (or such other interests), and any other ownership or profit interest in such Person (including, without limitation, partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such share, warrant, option, right or other interest is authorized or otherwise existing on any date of determination.

Equity Offering Net Proceeds" means, cumulatively, the Net cash proceeds received and the value of assets acquired (net of Debt incurred or assumed in connection therewith) through the issuance of Capital Stock of any Borrower Party after the Amended and Restated Closing Date, excluding any amounts attributable to mandatorily redeemable Preferred Stock (other than Preferred Stock redeemable solely with common stock). "Net" means net of underwriters' discounts, commission and other reasonable out-of-pocket expenses actually paid to any Person (other than any Borrower Party or any Affiliate thereof).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any Person that is or was a member of the affiliated or controlled group of corporations or trades or businesses (as defined in Subsection (b), (c), (m) or (o) of Section 414 of the Code) of which any Borrower Party is or was a member at any time within the last six years.

"Event of Default" means any of the events specified in Section 7.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Excluded Tax" is defined in Section 2.10.1.

"Extension" is defined in Section 2.5.2.

"Extension Notice" is defined in Section 2.5.2.

"Facility Fee" is defined in Section 2.4.1.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York on the Business Day next succeeding such day, *provided* that if such rate is not so published for any day that is a Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Agent on such day on such transactions as determined by the Agent.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System, or any successor thereto.

"Fee Letter" means that certain letter dated October 29, 2002 between the Borrower and the Agent.

"Fees" means, collectively, the fees described or referenced in Section 2.4.

"Fiscal Year" means the fiscal year of the Borrower, which shall be the 12 month-period ending on December 31 in each year or such other period as the Borrower may designate and the Agent may approve in writing, which approval shall not be unreasonably conditioned, withheld or delayed. "Fiscal Quarter" or "fiscal quarter" means any quarter of a Fiscal Year ending on March 31, June 30, September 30 or December 31.

"Fixed Charges" means, for any fiscal Quarter, and without duplication, Interest Expense for such Fiscal Quarter, plus scheduled principal amortization payments (other than balloon payments) on Debt of the Borrower Parties and the Consolidated Entities during such Fiscal Quarter, plus the Capital Expenditure Reserve, plus all dividends and other distributions paid during such Fiscal Quarter to holders of Preferred Stock or preferred partnership units of the Borrower Parties and the Consolidated Entities.

"Fixed Rate Loan" means any LIBOR Rate Loan.

"Foreign Lender Party" is as defined in 2.10.3.

"Funding Date" means any date on which a Loan is (or is requested to be) made.

"Funds from Operations" shall be interpreted consistently with the NAREIT Definition and shall mean, for any period, Net Income for such period excluding gains (or losses) from debt restructuring, sales of Real Property or similar extraordinary items as determined pursuant to GAAP, plus the portion of Depreciation and Amortization Expenses during such period which is attributable to Real Property, and after adjustments for Unconsolidated Joint Ventures. (Adjustments for Unconsolidated Joint Ventures shall be calculated to reflect funds from operations on the same basis.)

"GAAP" means generally accepted accounting principles as in effect in the United States of America (as such principles are in effect on the date hereof).

"Governmental Approval" means an authorization, consent, approval, permit or license issued by, or a registration or filing with, any Governmental Authority.

"Governmental Authority" means any nation and any state or political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any tribunal or arbitrator of competent jurisdiction.

"Gross Asset Value" means, at any time, the sum of (without duplication) the following, determined in accordance with GAAP, subject to the limits established pursuant to Sections 6.4.10 and 6.4.11:

(i) EBITDA for the most recently concluded Fiscal Quarter, multiplied by four, less the annual Capital Expenditure Reserve and then divided by the Capitalization Rate; provided, however, that for the purposes of this calculation, any Real Property that was not Wholly Owned by a Borrower Party for the entirety of such Fiscal Quarter shall be excluded;

(ii) the acquisition cost (including commissions, closing costs and other acquisition expenses not in excess of two percent (2.0%) of the purchase price and capitalized on the balance sheet of a Borrower Party) of any improved Real Property acquired in compliance with this Agreement during the most recently concluded Fiscal Quarter and not included in subclauses (i), (iii) or (iv) of this definition;

(iii) the amount of all Cash and Cash Equivalents held by the Borrower or the Guarantor as of the end of the most recently concluded Fiscal Quarter; and

(iv)the value of any Debt payable to a Borrower Party which is secured by mortgages or deeds of trust on real estate, marketable equity securities, unconsolidated Joint Ventures and other tangible investments, all determined in accordance with GAAP.

"Ground Lease" means a ground lease between the Borrower as ground lessor and a Subsidiary or other Person as ground lessee, in connection with which ground lease the following conditions are satisfied: (a) under the terms of the ground lease, the ground lessee is obligated to diligently pursue development of the leased premises as a commercial office, light industrial or retail project; and (b) either (i) the ground lessee is in compliance with that

obligation, or (ii) the Borrower is diligently pursuing remedies against the ground lessee as a result of the ground lessee's failure to comply with that obligation.

"Guarantor" means PS Business Parks, Inc., a California corporation.

"Guaranty" means an Amended and Restated General Continuing Repayment Guaranty made by Guarantor substantially in the form of Exhibit G, which shall bind any successor by merger to the Guarantor.

"Hazardous Materials" means any oil, flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, hazardous wastes, toxic or contaminated substances or similar materials, including, without limitation, any substances which are "hazardous substances," "hazardous wastes," "hazardous materials" or "toxic substances" under the Hazardous Materials Laws, and/or other applicable environmental laws, ordinances and regulations.

"Hazardous Materials Laws" means all laws, ordinances and regulations relating to Hazardous Materials including, without limitation: the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of 1980, as amended (including the Superfund Amendments and Reauthorization Act of 1988, "CERCLA"), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601, et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and all comparable state and local laws, laws of other jurisdictions or orders and regulations.

"Hedging Contract" means, for any Person, any interest rate, commodity, foreign exchange or other hedging agreement (including swaps, collars, caps and forward contracts) between such Person and one or more financial institutions providing for the transfer or mitigation of fluctuations of interest rates, exchange rates or other prices either generally or under specific contingencies.

"Indemnified Liabilities" is defined in Section 9.2.1.

"Indemnitee" is defined in Section 9.2.1.

"Intangible Assets" means (i) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of assets of a going concern business made within twelve months after the acquisition of such business) subsequent to March 31, 1998, in the book value of any asset owned by any Borrower Party or any Consolidated Entity, and (ii) all unamortized debt discount and expense, unamortized deferred charges, prepaid fees (including without limitation legal fees, financing fees and interest but excluding impound accounts and other deposits), goodwill, patents, trademarks, service marks, trade names, copyrights,

organization or development expenses, receivables from employees, officers or partners, leasehold options, licenses and other intangible assets.

"Interest Coverage Ratio" means, at any time, the ratio of (i) EBITDA for the Fiscal Quarter then most recently ended (or, if shorter, for the period from the Amended and Restated Closing Date to the end of such period), to (ii) Interest Expense for such period.

"Interest Differential" means the amount as of the date of any prepayment of a LIBOR Rate Loan by which (a) the amount of interest that would have accrued on such LIBOR Rate Loan for the remainder of the applicable Borrowing Period exceeds (b) the amount of interest that would accrue on such LIBOR Rate Loan for the period from the date of prepayment of such LIBOR Rate Loan to the last day of the applicable Borrowing Period for such LIBOR Rate Loan if the LIBOR Rate applicable to such LIBOR Rate Loan (the "Applicable Rate") were determined three (3) LIBOR Business Days prior to the date of prepayment of such LIBOR Rate Loan. The period commencing on the date of such prepayment and ending on the last day of the applicable Borrowing Period shall be deemed to be the "Borrowing Period" for determination of such Applicable Rate. The calculation of the Interest Differential by the Agent shall be conclusive in the absence of manifest error.

"Interest Expense" means, for any period, the sum (without duplication) for such period of (i) total interest expense, whether paid or accrued, of the Borrower Parties and the Consolidated Entities, including without limitation the portion of any Capitalized Lease Obligations allocable to interest expense, and the Borrower Parties' share of interest expenses in Unconsolidated Joint Ventures but excluding amortization or write-off of debt discount and expense, (ii) capitalized interest, (iii) to the extent not included in clauses (i) and (ii) the Borrower Parties' *pro rata* share of interest expense and other amounts of the type referred to in such clauses of the Unconsolidated Joint Ventures, and (iv) interest incurred on any liability or obligation that constitutes a Contingent Obligation of any Borrower Party or any Consolidated Entity. For purposes of clause (iii), a Borrower Party's *pro rata* share of interest expense or other amount of any Unconsolidated Joint Venture shall be deemed equal to the product of (a) the interest expense or other relevant amount of such Unconsolidated Joint Venture, *multiplied by* (b) the percentage of the total outstanding Capital Stock of such Person held by a Borrower Party or any Consolidated Entity, expressed as a decimal.

"Investment" means, with respect to any Person, (i) any direct or indirect purchase or other acquisition by that Person of stock or securities, or any beneficial interest in stock or other securities, of any other Person, any partnership interest (whether general or limited) in any other Person, or all or any substantial part of the business or assets of any other Person, (ii) any direct or indirect loan, advance or capital contribution by that Person to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"Joint Venture" means a joint venture, partnership or similar arrangement, whether in corporate, partnership or other legal form.

"Land Holdings" means unimproved Real Property owned by any Borrower Party with respect to which Commencement of Construction has not occurred.

"Lender" is defined in the Preamble. For purposes of the Sections referred to in (and subject to) Section 9.6.3, "Lender" includes a holder of a Participation.

"Lender Party" is defined in the Preamble. For purposes of the Sections referred to in (and subject to) Section 9.6.3, "Lender Party" includes a holder of a Participation.

"Lending Office" means, with respect to the Agent, (i) in the case of any payment with respect to LIBOR Rate Loans, the Agent's LIBOR Lending Office, and (ii) in the case of any payment with respect to Base Rate Loans or any other payment under the Loan Documents, the Agent's Domestic Lending Office.

"Leverage" means Total Liabilities divided by Gross Asset Value, expressed as a percentage.

"Liabilities" means, at any time, the aggregate amount of all liabilities of the Guarantor that have been or properly would be classified as liabilities on the consolidated balance sheet of the Guarantor.

"LIBOR Business Day" means any Business Day on which dealings in United States Dollar deposits are conducted by and between banks in the Designated Market for LIBOR Rate Loans.

"LIBOR Fee" is defined in Section 2.9.1.

"LIBOR Lending Office" means, as to each Lender, the office or branch of the Lender so designated on the signature pages of this Agreement, or such other office or branch of such Lender as the Lender may hereafter designate, by written notice to the Borrower and Agent, as its LIBOR Lending Office.

"LIBOR Obligations" means Eurocurrency liabilities (as defined in Section 204.2(h) of Regulation D) and nonpersonal time deposits as defined in Section 204.2-(f)(v) of Regulation D).

"LIBOR Rate" means, with respect to any LIBOR Rate Loan, the rate per annum (rounded upward to the next 1/16th of one percent) at which deposits in United States Dollars are offered by the Agent in the Designated Market at approximately 8:00 a.m. (Pacific Coast time) three (3) LIBOR Business Days prior to the first day of the applicable Borrowing Period in an amount approximately equal to such LIBOR Rate Loan, and for a period of time comparable to the number of days in the applicable Borrowing Period; provided, however, that if the Agent shall fail as a result of the occurrence of a Special Circumstance to determine the

LIBOR Rate as provided in Section 2.1.2.3, no LIBOR Rate shall be available with respect to such LIBOR Rate Loan, and such LIBOR Rate Loan shall become a Base Rate Loan until further designation pursuant to Section 2.1.3. The determination of the LIBOR Rate by the Agent shall be conclusive in the absence of manifest error.

"LIBOR Rate Loan" means a Loan which is designated as a LIBOR Rate Loan pursuant to Section 2.1.2.

"Lien" means any lien, mortgage, pledge, security interest, charge, or encumbrance of any kind (including any conditional sale or other title retention agreement or any lease in the nature thereof) and any agreement to give or refrain from giving any lien, mortgage, pledge, security interest, charge, or other encumbrance of any kind and with respect to property, shall include any of the foregoing, encumbering or otherwise relating to a partnership interest in a partnership that owns such property.

"Liquidated Cost" shall have the meaning set forth in Section 5.12.

"Loan" means the Loan made or to be made pursuant to ARTICLE 2.

"Loan Account" is defined in Section 2.3.3.

"Loan Documents" means, collectively, this Agreement, the Notes, the Guaranty, and any other agreement, instrument or other writing executed or delivered by any Borrower Party in connection herewith, and all amendments, exhibits and schedules to any of the foregoing.

"Major Agreements" means, with respect to any Real Property included within the Unencumbered Pool or which Borrower proposes for inclusion within the Unencumbered Pool, (a) a lease of such Real Property with respect to 100,000 square feet or more of gross leasable area, and (b) each ground lease affecting such Real Property.

"Majority Lenders" means Lenders having at least 66.67% of the aggregate amount of the Commitments.

"Mandatory Prepayment" means any mandatory prepayment described in Section 2.6.1.

"Margin Regulations" means Regulations G, T, U and X of the Federal Reserve Board, as amended from time to time.

"Margin Stock" means "margin stock" as defined in the Margin Regulations.

"Material," "Material Adverse Effect" or "Material Adverse Change" means (i) a condition, circumstance or event material to, (ii) a material adverse effect on or (iii) a material adverse change in, as the case may be, any one or more of the following: (a) the business, assets, results of operations or financial condition of a Borrower Party or (B) the ability

of any Borrower Party to perform its obligations under any Loan Document to which it is a party. "Materially" has a correlative meaning.

"Maturity Date" means at any time, the then-applicable maturity date specified hereunder. The initial Maturity Date shall be August 1, 2005, although such date may be extended by the Lenders as provided in Section 2.5.2 hereof.

"Moody's" means Moody's Investors Services, Inc. or any successor thereto.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 3(37) and Section 4001(a)(3) of ERISA to which the Borrower or any of the ERISA Affiliates is making or accruing an obligation to make contributions or to which any such Person has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means a "single employer plan," as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of the Borrower or any ERISA Affiliate and at least one person other than the Borrower and the ERISA Affiliates or (ii) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA if such plan has been or were to be terminated.

"Net Income" means, for any period, without duplication, total net income (or loss) of the Borrower Parties and the Consolidated Entities for such period taken as a single accounting period, including the Borrower Parties' *pro rata* share of the income (or loss) of any Unconsolidated Joint Venture for such period, *provided* that there shall be excluded therefrom (i) any charges for minority interests in the Borrower held by Persons other than the Borrower, (ii) any income or loss attributable to extraordinary items, including without limitation, income or loss attributable to restructuring of Debt, (iii) gains and losses from sales of assets, and (iv) except to the extent otherwise included hereunder, the income (or loss) of any Person accrued prior to the date it becomes a Consolidated Entity or is merged with a Borrower Party or any Consolidated Entity or such Person's assets are acquired by a Borrower Party or any Consolidated Entity. For purposes of this definition, the Borrower Parties' *pro rata* share of income (or loss) of any Unconsolidated Joint Venture shall be deemed equal to the product of (i) the income (or loss) of such Unconsolidated Joint Venture, *multiplied by* (ii) the percentage of the total outstanding Capital Stock of such Person held by the Borrower Parties or any Consolidated Entity, expressed as a decimal.

"Net Worth" means, at any date, the consolidated stockholders' equity of the Borrower (including minority interests in the Borrower) and the Consolidated Entities, excluding any amounts attributable to mandatorily redeemable Preferred Stock (other than Preferred Stock redeemable solely with common stock); provided, solely for purposes of this definition, the consolidated stockholders' equity will be adjusted to add, without duplication, historical accumulated depreciation and the net additions to accumulated depreciation and amortization occurring subsequent to March 31, 2002.

"Nonrecourse Debt" means any indebtedness: (a) under the terms of which the payee's remedies upon the occurrence of an event of default are limited to specific, identified

assets of a Borrower Party which secure such indebtedness; and (b) for the repayment of which such Borrower Party has no personal liability beyond the loss of such specified assets, except for liability for fraud, material misrepresentation or misuse or misapplication of insurance proceeds, condemnation awards or rents, waste, existence of hazardous wastes or other customary exceptions to nonrecourse provisions.

"Note" means an Amended and Restated Revolving Loan Note.

"Notice of Borrowing" is defined in Section 2.1.1.

"Notice of Continuation/Conversion" is defined in Section 2.2.2.2.

"Notice of Responsible Officer" is defined in Section 2.1.2.6.

"Obligations" means all present and future obligations and liabilities of the Borrower of every type and description arising under or pursuant to the Loan Documents due or to become due to the Lender Parties or any Person entitled to indemnification, or any of their respective successors, transferees or assigns, whether for principal, interest, fees, expenses, indemnities or other amounts (including attorneys' fees and expenses) and whether due or not due, direct or indirect, joint and/or several, absolute or contingent, voluntary or involuntary, liquidated or unliquidated, determined or undetermined, and whether now or hereafter existing, renewed or restructured.

"Occupancy Rate" with respect to any Real Property, shall mean the ratio of (a) rentable square feet in such Real Property which are physically occupied by tenants paying rent pursuant to a lease to (b) the number of rentable square feet in such Real Property, expressed as a percentage.

"Office Park Property" means each commercial office, light industrial or retail property owned by any Borrower Party.

"Operating Lease" means, as applied to any Person, any lease of any property (whether real, personal, or mixed) under which such Person is the lessee and that is not capitalized on the balance sheet of such Person.

"Other Assets" means (i) Land Holdings; (ii) Capital Stock (which is owned by a Borrower Party) of any Person; (iii) Debt payable to a Borrower Party and (iv) Construction-in-Progress.

"Outstanding Unsecured Liabilities" means, at any time, the sum of (i) Revolving Commitment Usage; (ii) the outstanding principal balance of other Debt of any of the Borrower Parties which is not secured by a Lien *(provided, however,* that Debt pursuant to which any Borrower Party shall have granted a negative pledge or similar promise shall not be deemed to be secured by a Lien); (iii) trade payables of the Borrower for construction in progress; (iv) all Liquidated Costs; and (v) with respect to any Borrower Party that has any employees at any time or has any ERISA Affiliate, benefit liabilities (whether or not vested) under all Plans (excluding all Plans with assets greater than or equal to liabilities (whether or not

vested)) in excess of the current value of the assets of such Plans allocable to such benefits; *provided, however,* that the portion of any Debt secured by collateral other than real property, which portion exceeds the fair market value of the collateral therefor, shall be deemed to be Debt that is not secured by a Lien.

"Overdraw" means any event, condition or circumstance under which the aggregate Revolving Commitment Usage of all Lenders exceeds Availability.

"Participant" means any holder of a Participation.

"Participation" is defined in Section 9.6.3.

"PBGC" means the Pension Benefit Guaranty Corporation, as defined in Title IV of ERISA, or any successor.

"Periodic Payment Date" means the first Business Day of each month.

"Permitted Liens" means:

(a) Liens (other than Environmental Liens and any Lien imposed under ERISA) for taxes, assessments or charges of any Governmental Authority or claims not yet due;

(b) Liens (other than any Lien imposed under ERISA) incurred or deposits made in the ordinary course of business (including without limitation surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness), and statutory obligations;

(c) Liens imposed by laws, such as mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than thirty (30) days past due or are being contested as permitted under this Agreement;

(d) any Liens which are approved by the Majority Lenders; and

(e) rights of lessees under leases and the rights of lessors under Capital Leases.

"Person" means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or any other entity or organization, including a government or any agency or political subdivision thereof and, for the purpose of the definition of "ERISA Affiliate," a trade or business.

"Plan" means any pension, retirement, disability, defined benefit, defined contribution, profit sharing, deferred compensation, employee stock ownership, employee stock purchase, health, life insurance, or other employee benefit plan or arrangement, other than a Multiemployer Plan, irrespective of whether any of the foregoing is funded, in which any personnel of the Borrower or ERISA Affiliate participates or from which any such personnel may derive a benefit.

"Post-Default Rate" means, at any time, a rate per annum equal to the Base Rate in effect at such time *plus* 5%.

"Preferred Stock" means, with respect to any Person, shares of capital stock of, or other equity interests in, such Person which are entitled to preference or priority over any other capital stock of, or other equity interest (including without limitation, partnership units) in, such Person in respect of the payment of dividends or distribution of assets upon liquidation or both.

"Prescribed Forms" is defined in Section 2.10.3.

"Prohibited Transaction" means a transaction that is prohibited under Section 4975 of the Code or Section 406 or 407 of ERISA and not exempt under Section 4975 of the Code or Section 408 of ERISA.

"Projections" means those certain financial projections of the Borrower and Guarantor submitted to Agent on December 15, 1997 and during the week of July 27, 1998.

"Property Expenses" means, for any Real Property, all operating expenses relating to such Real Property, including without limitation the following items *(provided, however,* that notwithstanding anything to the contrary in this definition, Property Expenses shall not include Debt service, capital improvements, Depreciation and Amortization Expenses and any extraordinary items not considered operating expenses under GAAP, and the outstanding principal balance of assessments shown as a liability on the Borrower's balance sheet):

(i) all expenses for the operation of such Real Property, including any management fees payable and all insurance expenses, but not including any expenses incurred in connection with a sale or other capital or interim capital transaction;

(ii) water charges, property taxes (including the nonprincipal component of assessment debt not shown on Borrower's balance sheet), assessments, sewer rents and other impositions, other than fines, penalties, interest or such impositions (or portions thereof) that are payable by reason of the failure to pay an imposition timely; and

(iii) the cost of routine maintenance, repairs and minor alterations, to the extent they are expensed by Borrower under GAAP.

"Property Income" means, for any Real Property, all gross revenue from the ownership and/or operation of such Real Property (but excluding income from a sale or other capital item transaction), service fees and charges, tenant expense reimbursement income payable with respect to such Real Property (but not such reimbursement for expenditures not included as a Property Expense) and the proceeds of any business or rental interruption insurance with respect to such Real Property.

"Property Information" means the following information and other items with respect to each Real Property which Borrower intends to designate as an Unencumbered Asset to be added to the Unencumbered Pool:

(i) A physical description of such Real Property, the date upon which such Real Property was acquired or is proposed to be acquired by Borrower, the Acquisition Price of such Real Property, if the building located on such Real Property or the use of such building does not conform to applicable zoning ordinances and laws, a description of any material nonconformity and whether such building or use is a legal nonconforming use, a copy of any reports delivered to Borrower with respect to the structural integrity of improvements located on such Real Property and Borrower's preliminary budget for nonrevenue enhancing capital expenditures for such Real Property for the next succeeding eight (8) Fiscal Quarters;

(ii) A current operating statement for such Real Property, audited or certified by Borrower as being true and correct in all material respects and prepared in accordance with GAAP, and comparative operating statements for the current interim fiscal period and for the previous two (2) Fiscal Years (or such lesser period as it has been operating); provided, however, that, if Borrower shall have owned such Real Property for less than the period to be covered by such operating statements and comparative operating statements, then the audit and certification requirements shall extend only to the period of ownership by Borrower, and Borrower shall provide to Agent complete copies of any operating statements prepared by former owner(s) of such Real Property with respect to the remainder of the periods required hereunder, if the same are available to Borrower;

(iii) A current Rent Roll for such Real Property, certified by Borrower as being true and correct (or if Borrower does not presently own the Property, a copy of the Rent Roll prepared by the seller thereof if the same are available to Borrower);

(iv) A "Phase I" environmental assessment of such Real Property not more than twelve (12) months old, prepared by an environmental engineering firm reasonably acceptable to Agent;

(v) Copies of all Major Agreements affecting such Real Property;

(vi) A copy of Borrower's most recent Owner's or Leasehold Policy of Title Insurance, covering such Real Property or a current preliminary title report; and

(vii) If Borrower's interest in such Real Property is a ground leasehold interest, a copy of the ground lease pursuant to which Borrower leases such Real Property and all amendments thereto and memoranda thereof.

"Property NOI" means, for any Real Property for any period, (i) all Property Income for such period, *minus* (ii) all Property Expenses for such period.

"PSI" means Public Storage, Inc., a California corporation.

"Rating Agencies" means, collectively, S&P and Moody's. Other nationally recognized rating agencies shall be "Rating Agencies" following approval thereof by the Agent.

"Real Property" means each of those parcels (or portions thereof) of real property, improvements and fixtures thereon and appurtenances thereto now or hereafter owned or leased for use or development as an Office Park Property by any Borrower Party and uses ancillary thereto.

"Regulation D" means Regulation D of the Federal Reserve Board, as amended from time to time.

"Regulatory Change" means (i) the adoption or becoming effective after the date hereof of any treaty, law, Rule or regulation, (ii) any change in any such treaty, law, Rule or regulation (including Regulation D), or any change in the administration or enforcement thereof, by any Governmental Authority, central bank or other monetary authority charged with the interpretation or administration thereof, in each case after the date hereof, or (iii) compliance after the date hereof by any Lender Party (or its Lending Office or, in the case of capital adequacy requirements, any holding Borrower of any Lender Party) with, any interpretation, directive, request, order or decree (whether or not having the force of law) of any such Governmental Authority, central bank or other monetary authority.

"REIT" means a real estate investment trust in compliance with all requirements imposed upon real estate investment trusts under the Code and all regulations thereunder.

"Rent Roll" means, with respect to any Real Property, a rent roll for such Real Property stating for each tenancy within such Real Property the identity of the lessee, the suite designation of the space leased, the gross leasable area included within such space, the date of commencement and the date of termination of such tenancy, the periods of any options to extend or terminate such tenancy, the base rent and any escalations or operating expense reimbursement payable in respect of such tenancy and the type of lease (i.e., gross or degree to which net of expenses, taxes and other items).

"Rental Payments" means, for any period, (i) all Interest Expense attributable to Capitalized Leases *plus* (ii) all rents paid under Operating Leases, in each case for such period.

"Reportable Event" means any of the reportable events set forth in Section 4043 of ERISA or the regulations thereunder, except any such event (other than the failure to meet minimum funding standards of Section 412 of the Code or Section 302 of ERISA) as to which the provision for notice to the PBGC is waived under applicable regulations.

"Responsible Officer" is defined in Section 2.1.2.6.

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any Capital Stock of any Borrower Party now or hereafter outstanding, except (a) a dividend or other distribution payable solely in shares or equivalents of the same class of Capital Stock and (b) the issuance of equity interests upon the exercise of outstanding warrants, options or other rights, or (ii) any redemption, retirement, sinking fund or similar

payment, purchase or other acquisition for value, direct or indirect, of any Capital Stock of any Borrower Party now or hereafter outstanding.

"Revolving Commitment" means, with respect to each Lender, the amount such Lender is committed to loan with respect to this Agreement. With respect to the initial Lender hereunder, such amount shall mean $100,000,000.00.

"Revolving Commitment Termination Date" is defined in Section 2.5.1.

"Revolving Commitment Usage" means, at any time, (i) with respect to any Lender, the aggregate unpaid principal amount of all Revolving Loans made by such Lender and (ii) with respect to all Lenders, the aggregate unpaid principal amount of all Revolving Loans.

"Revolving Loan" is defined in Section 2.1.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto.

"SEC" means the United States Securities and Exchange Commission, and any successor.

"Secured Debt" means Debt of any Borrower Party or any Consolidated Entity in any case secured by any Lien, including without limitation (i) all Debt of the Borrower or any Consolidated Entity secured by a Lien upon any Real Property and (ii) all Debt which has a liquidation preference, contractual or otherwise, over the Obligations (other than wages or tenant security deposits).

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Officer" means, with respect to the general partner of the Borrower, the Chairman of the Board of Directors, the President, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Treasurer or any Senior Vice President in charge of a principal business unit or division of the general partner of the Borrower.

"Special Circumstance" means the application or adoption of any law or interpretation, or any change therein or thereof, or any change in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by the Lenders, any Assignee Lender, any Participant, or the LIBOR Lending Office of any Lender, Assignee Lender or Participant, with any request or directive (whether or not having the force of law) of any such Governmental Authority, or the occurrence of circumstances affecting the Designated Market or the ability of the Lenders to fix interest rates with reference to the Designated Market which are beyond the reasonable control of the Lenders, any Assignee Lender or Participant.

"Stated Revolving Termination Date" is defined in Section 2.5.1.

"Subsidiary" means, as of any date of determination and with respect to any Person, any corporation or partnership (whether or not, in either case, characterized as such or as a "joint venture"), whether now existing or hereafter organized or acquired: (a) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors or other governing body (other than securities having such power only by reason of the happening of a contingency) are at the time beneficially owned by such Person and/or one or more Subsidiaries of such Person, or (b) in the case of a partnership, of which such Person or a subsidiary of such Person is a general partner or of which a majority of the partnership or other ownership interests are at the time beneficially owned by such Person and/or one or more of its subsidiaries.

"Tangible Net Worth" means, at any time, Net Worth minus Intangible Assets at such time.

"Tax Expense" means (without duplication), for any period, total tax expense (if any) attributable to income and franchise taxes based on or measured by income, whether paid or accrued, of the Borrower Parties and the Consolidated Entities, including the Borrower Parties' and Consolidated Entity's *pro rata* share of tax expenses in any Unconsolidated Joint Venture. For purposes of this definition, a Borrower Party's *pro rata* share of any such tax expense of any Unconsolidated Joint Venture shall be deemed equal to the product of (i) such tax expense of such Unconsolidated Joint Venture, *multiplied by* (ii) the percentage of the total outstanding Capital Stock of such Person held by the Borrower Parties or any Consolidated Entity, expressed as a decimal.

"Taxes" means any present or future income, stamp and other taxes, charges, fees, levies, duties, imposts, withholdings or other assessments, together with any interest and penalties, additions to tax and additional amounts imposed by any federal, state, local or foreign taxing authority upon any Person.

"To the best of knowledge of" means, when modifying a representation, warranty or other statement of any Person, that the fact or situation described therein is known by the Person (or, in the case of a Person other than a natural person, known by a Responsible Officer of that Person) making the representation, warranty or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable man in similar circumstances would have done) should have been known by the Person (or, in the case of a Person other than a natural person, should have been known by a Responsible Officer of that Person).

"Total Liabilities" means, at any time, without duplication, the aggregate amount of (i) all Debt and other liabilities of the Borrower Parties and the Consolidated Entities reflected in the financial statements of the Borrower Parties or disclosed in the financial notes thereto, *plus* (ii) all liabilities of all Unconsolidated Joint Ventures that is otherwise recourse to the Borrower Parties or any Consolidated Entity or any of their respective assets or that otherwise constitutes Debt of any Borrower Party or any Consolidated Entity, *plus* (iii) the Borrower Parties' *pro rata* share of all Debt and other liabilities of any Unconsolidated Joint Venture not otherwise constituting Debt of or recourse to any Borrower Party or any

Consolidated Entity or any of its assets. For purposes of clause (iii), the Borrower Parties' *pro rata* share of all Debt and other liabilities of any Unconsolidated Joint Venture shall be deemed equal to the product of (a) such Debt or other liabilities, *multiplied by* (b) the percentage of the total outstanding Capital Stock of such Person held by a Borrower Party or any Consolidated Entity, expressed as a decimal.

"Trademarks" means trademarks, servicemarks and trade names, all registrations and applications to register such trademarks, servicemarks and trade names and all renewals thereof, and the goodwill of the business associated with or relating to such trademarks, servicemarks and trade names, including without limitation any and all licenses and rights granted to use any trademark, servicemark or trade name owned by any other person.

"Type" is defined in Section 2.1.1.

"Unconsolidated Joint Venture" means (i) any Joint Venture of any Borrower Party or any Consolidated Entity in which any Borrower Party or such Consolidated Entity holds any Capital Stock but which would not be combined with a Borrower Party in the consolidated financial statements of such Borrower Party in accordance with GAAP, and (ii) any Investment of the Borrower or any Consolidated Entity in any Person that is not a Joint Venture.

"Unencumbered Asset Value" means, at any time, with respect to Unencumbered Assets that have been Wholly-Owned for at least one full Fiscal Quarter at such time, the product of the Property NOI of such Unencumbered Assets during the period of the full Fiscal Quarter ended most recently, multiplied by 4, less the product of (i) $.95 multiplied by (ii) the gross rentable square footage of all Unencumbered Assets that have been Wholly-Owned owned for such period, divided by the Capitalization Rate plus (y) Cash and Cash Equivalents (excluding tenant deposits and other restricted cash) and (z) the book value of Construction-in-Process and Land Holdings; provided that the value of clause (z) shall be limited to 5% of the Unencumbered Pool Value.

"Unencumbered Asset" means any Real Property designated by Borrower that satisfies all of the following conditions:

(i) is an Office Park Property;

(ii) is free and clear of any Lien, other than (a) easements, covenants, and other restrictions, charges or encumbrances not securing Indebtedness that do not interfere materially with the ordinary operations of such Real Property and do not materially detract from the value of such Real Property; (b) building restrictions, zoning laws and other Requirements of Law that do not interfere materially with the ordinary operations of such Real Property and do not materially detract from the value of such Real Property; (c) leases and subleases of such Real Property in the ordinary course of business; and (d) Permitted Liens and no condition exists with respect to such Real Property which could give rise to Environmental Damages;

(iii) is Wholly-Owned; and

(iv) after adding such Real Property to the Unencumbered Pool, the Real Properties in the Unencumbered Pool shall not have an aggregate Occupancy Rate less than ninety percent (90%).

As of the date hereof all Unencumbered Assets are described on Schedule 1.1C, provided that if any Unencumbered Asset (including any of the properties listed on Schedule 1.1C) no longer satisfies any of the conditions set forth in the foregoing clauses (i) through (iv), inclusive, the Majority Lenders shall have the right, at any time and from time to time, to notify the Borrower that, effective upon the giving of such notice, such asset shall no longer be considered an Unencumbered Asset. If the Borrower intends to designate a Real Property as an Unencumbered Asset to be added to the Unencumbered Pool from time to time, it will notify the Agent of such intention, which notice will include, with respect to such Real Property, the Property Information with respect to such Real Property, and such other information and items as may be reasonably requested by Agent with respect to such Real Property. Upon Agent's concurrence that the evidence presented by Borrower is sufficient to show that such Real Property constitutes an Unencumbered Asset, it shall be added to the Unencumbered Pool. If the Borrower at any time intends to withdraw any Real Property from the Unencumbered Pool, it shall (a) notify the Agent of its intention, and (B) deliver to the Agent a certificate of its chief financial officer, chief executive officer or chief operating officer setting forth the calculations establishing that the Borrower will be in compliance with this Agreement after giving effect to such withdrawal (and any concurrent addition of Real Properties to the Unencumbered Pool), which calculations shall be in such detail, and otherwise in such form and substance, as Agent reasonably requires. Effective automatically upon receipt of such notice and certificate by the Agent (or upon any later date stated in such notice), such Real Property shall no longer constitute an Unencumbered Asset.

"Unencumbered Net Operating Income" means that portion of Property NOI derived from Unencumbered Assets.

"Unencumbered Pool" means the pool of Unencumbered Assets.

"Unsecured Interest Expense" means Interest Expense other than that attributable to liabilities which are Secured Debt.

"Wholly-Owned" means, with respect to any Office Park Property or other asset owned, that (i) title to such asset is held directly by the Borrower or Guarantor, or (ii) in the case of Office Park Property, title to such property is held by a Consolidated Entity at least 99% of the Capital Stock of which is held of record and beneficially by the Borrower or Guarantor and the balance of the Capital Stock of which (if any) is held of record and beneficially by the Guarantor (or any wholly-owned Subsidiary of the Guarantor).

Related Matters.

Construction.

Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, the singular includes the plural, the part includes the whole, "including" is not limiting, and "or" has the inclusive meaning represented by the phrase

"and/or." The words "hereof," "herein," "hereby," "hereunder" and similar terms in this Agreement refer to this Agreement as a whole (including the Preamble, the Recitals, the Schedules and the Exhibits) and not to any particular provision of this Agreement. Article, section, subsection, exhibit, schedule, recital and preamble references in this Agreement are to this Agreement unless otherwise specified. References in this Agreement to any agreement, other document or law "as amended" or "as amended from time to time," or to amendments of any document or law, shall include any amendments, supplements, replacements, renewals, waivers or other modifications not prohibited by the Loan Documents. References in this Agreement to any law (or any part thereof) include any rules and regulations promulgated thereunder (or with respect to such part) by the relevant Governmental Authority, as amended from time to time.

Determinations.

Except as expressly provided otherwise in Article 2, any determination or calculation contemplated by Article 2 of this Agreement that is made by any Lender Party in good faith shall be final and conclusive and binding upon the Borrower, and, in the case of determinations by the Agent in good faith, also the other Lender Parties, in the absence of manifest error. References in this Agreement to any "determination" by any Lender Party include good faith estimates by such Lender Party (in the case of quantitative determinations), and good faith beliefs by such Lender Party (in the case of qualitative determinations). All references herein to "discretion" of any Lender Party (or terms of similar import) shall mean "absolute and sole discretion." All consents and other actions of any Lender Party contemplated by this Agreement may be given, taken, withheld or not taken in such Lender Party's discretion (whether or not so expressed), except as otherwise expressly provided herein.

Accounting Terms and Determinations.

Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared on a consolidated basis in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the independent public accountants of the Borrower) with the audited consolidated financial statements of the Borrower and Guarantor referred to in Section 4.5.

Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA (OTHER THAN CHOICE OF LAW RULES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION).

Headings.

The Article and Section headings used in this Agreement are for convenience of reference only and shall not affect the construction hereof.

Severability.

If any provision of this Agreement shall be held to be invalid, illegal or unenforceable under Applicable Law in any jurisdiction, such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability, which shall not affect any other provisions hereof or the validity, legality or enforceability of such provision in any other jurisdiction.

Independence of Covenants.

All covenants under this Agreement shall each be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by another covenant, by an exception thereto, or be otherwise within the limitations thereof, shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

Exhibits, Etc.

All of the appendices, exhibits and schedules attached to this Agreement shall be deemed incorporated herein by reference.

Other Definitions.

Terms otherwise defined in Preamble, the Recitals, and in any other provision of this Agreement or any of the other Loan Documents not defined or referenced in Section 1.1 have their respective defined meanings when used herein or therein.

AMOUNTS AND TERMS OF THE CREDIT FACILITIES

Revolving Loans.

Each Lender severally agrees, upon the terms and subject to the conditions set forth in this Agreement, at any time from and after the Amended and Restated Closing Date until the Business Day next preceding the Revolving Commitment Termination Date, to make revolving loans (each a "Revolving Loan") to the Borrower in an aggregate principal amount not to exceed at any time outstanding, when added to other Revolving Commitment Usage of such Lender at such time, the Revolving Commitment of such Lender, *provided that* the Revolving Commitment Usage of all Lenders at any time, in the aggregate, shall not exceed the lesser of (i) aggregate Revolving Commitments of all Lenders and (ii) Availability. Revolving Loans may be voluntarily prepaid pursuant to Section 2.6.2 and, subject to the provisions of this Agreement, any amounts so prepaid may be re-borrowed, up to the amount available under this Section 2.1 at the time of such re-borrowing.

Type of Loans and Minimum Amounts.

Loans made under this Section 2.1 may be Base Rate Loans or LIBOR Rate Loans (each a "Type" of Loan), subject, however, to Section 2.2.2. Each Borrowing of Loans (other than LIBOR Rate Loans) shall be in a minimum aggregate amount of Two Hundred Thousand Dollars ($200,000.00) and integral multiples of Ten Thousand Dollars ($10,000.00). Unless the Agent otherwise consents in writing: (i) the principal amount of each LIBOR Rate Loan shall be an integral multiple of Ten Thousand Dollars ($10,000.00), but not less than Two Hundred Thousand Dollars ($200,000.00); and (ii) no more than fifteen (15) LIBOR Rate Loans shall be permitted to be outstanding at any one time.

Notice of Borrowing.

When the Borrower desires to borrow Loans pursuant to Section 2.1, it shall deliver to the Agent a Notice of Borrowing substantially in the form of Exhibit B-1, duly completed and executed by a Responsible Officer (each such notice shall be referred to herein as a "Notice of Borrowing"), no later than 9:00 a.m. (Pacific Coast time) (a) at least one Business Day before the proposed Funding Date in the case of a Borrowing of Base Rate Loans, or (b) at least three LIBOR Business Days before the proposed Funding Date, in the case of a Borrowing of LIBOR Rate Loans. Except to the extent designated as a LIBOR Rate Loan pursuant to this Section 2.1.3, the unpaid principal balance of all Loans shall constitute a Base Rate Loan, and each LIBOR Rate Loan shall become a Base Rate Loan on the last day of the applicable Borrowing Period.

Subject to the terms and conditions set forth in this Agreement, at any time and from time to time from the Amended and Restated Closing Date to the LIBOR Business Day next preceding the Revolving Commitment Termination Date, the Borrower may request that any portion of requested or outstanding Loans be designated, pro rata as to each Lender according to the Commitment of that Lender, as a LIBOR Rate Loan, provided that the amount included in any such request shall not exceed the aggregate Revolving Commitments less the aggregate Revolving Commitment Usage (other than LIBOR Rate Loans with respect to which the last day in the applicable Borrowing Period coincides with the first day in the Borrowing Period applicable to the proposed LIBOR Rate Loan).

As soon as practicable after receipt of a Notice of Borrowing pursuant to Section 2.1.2.2., the Agent shall determine the applicable LIBOR Rate (which determination shall be conclusive in the absence of manifest error) and shall promptly (and in any event not later than 9:00 a.m. Pacific Coast time on the date of receipt of such request) give notice of the same to the Borrower by telephone; at the time of receipt of such telephonic notice, the Borrower shall immediately either accept such rate for the Loan in question or reject such rate, in which case the Borrower's Notice of Borrowing with respect to such Loan shall be ineffective.

If the Borrower gives confirmation by 9:00 a.m., Pacific Coast time, on the date of delivery of a Notice of Borrowing pursuant to Section 2.1.2.1., that it accepts the applicable LIBOR Rate for the LIBOR Rate Loan in question, as provided in Section 2.1.2.3., the Agent shall, prior to 10:00 a.m., Pacific Coast time, three (3) Business Days before any LIBOR Rate Loan, give

notice to each Lender by telephone, telecopier or telex stating (i) the effective date of the LIBOR Rate Loan, (ii) the amount of the LIBOR Rate Loan and (iii) the applicable LIBOR Rate. In no event shall the Agent's failure to so notify each Lender affect the Borrower's election of the LIBOR Rate with respect to any Loan.

Upon fulfillment of the applicable conditions set forth in this Section 2.1.1 and in Section 3.2, the LIBOR Rate quoted to and accepted by the Borrower pursuant to Section 2.1.2.3. shall become effective with respect to the LIBOR Rate Loan in question on the first day of the applicable Borrowing Period.

The Borrower shall notify the Agent of the names of its officers and employees of its general partner which are authorized to request and take other actions with respect to loans on behalf of the Borrower (each a "Responsible Officer") by providing the Agent with a Notice of Responsible Officers substantially in the form of Exhibit B-3, duly completed and executed by a Senior Officer (a "Notice of Responsible Officer"). The Agent shall be entitled to rely conclusively on a Responsible Officer's authority to request and take other actions with respect to Loans on behalf of the Borrower until the Agent receives a new Notice of Responsible Officer that no longer designates such Person as a Responsible Officer. The Agent shall have no duty to verify the authenticity of the signature appearing on any Notice of Borrowing, Notice of Responsible Officer or any other notice given under the Loan Documents.

Except as provided in Section 2.1.2.3., any Notice of Borrowing delivered pursuant to this Section 2.1.2. shall be irrevocable and the Borrower shall be bound to make a borrowing in accordance therewith.

The Agent shall promptly notify each Lender of the contents of any Notice of Borrowing received by it and such Lender's pro rata portion of the Borrowing requested. Not later than 10:00 a.m. (Pacific Coast time) on the date specified in such notice as the Funding Date, each Lender, subject to the terms and conditions hereof, shall make its pro rata portion of the Borrowing available, in immediately available funds, to the Agent at the Agent's Account.

Funding.

Not later than 12:00 noon (Pacific Coast time) or such later time as may be agreed to by the Borrower and the Agent, and subject to and upon satisfaction of the applicable conditions set forth in Article 3 as determined by the Agent, the Agent shall make the proceeds of the requested Loans available to the Borrower in Dollars in immediately available funds in the Borrower Account.

Interest; Late Charge; Conversion/Continuation.

Interest Rate and Payment.

Each Loan shall bear interest on the unpaid principal amount thereof, from and including the date of the making of such Loan to and excluding the due date or the date of any repayment thereof, at the following rates per annum: (a) for so long as and to the extent that such Loan

is a Base Rate Loan, at the Base Rate (as in effect from time to time) (b) for so long as and to the extent that such Loan is a LIBOR Rate Loan, at the LIBOR Rate for each Borrowing Period applicable thereto **plus** ***the Applicable Margin.***

In the event that the Borrower fails to pay any interest payable under this Agreement on or prior to the expiration of ten (10) days after such interest first becomes due and payable, the Borrower shall pay to the Agent for the pro rata benefit of the Lenders a late charge equal to four percent (4%) of the amount of such unpaid interest payment. The Borrower acknowledges and agrees that an accurate determination of the Lender Parties' damages as a result of the Borrower's failure to pay interest as and when due hereunder is not reasonably practicable, and the late charge provided for herein is a reasonable estimate of the amount of additional cost and the value of the loss of use of funds that will be suffered by the Lender Parties in the event that an interest payment is not paid when due.

Notwithstanding the foregoing provisions of this Section 2.2.1, any interest payable under this Agreement and the other Loan Documents that is not paid within thirty (30) days after the date such amount is due, or any principal or other amount payable under this Agreement that is not paid when due, shall in each case thereafter bear interest at a rate per annum equal to the Post-Default Rate, without notice or demand of any kind. Such interest at the Post-Default Rate shall be in addition to, and not in lieu of, the late charge provided for in Section 2.2.12.

Accrued interest shall be payable in arrears (a) in the case of any Type of Loan, on each Periodic Payment Date; and (b) in the case of any Loan, when the Loan shall become due (whether at maturity, by reason of prepayment, acceleration or otherwise).

In order to assure timely payment to Agent of accrued interest, principal, fees and late charges due and owing under the Loans, Borrower hereby irrevocably authorizes Agent to directly debit Borrower's demand deposit account with Agent, account number 4828-665364, for payment when due of all such amounts payable hereunder. Borrower represents and warrants to Agent that Borrower is the legal owner of said account. Written confirmation of the amount and purpose of any such direct debit shall be given to Borrower by Agent not less frequently than monthly. In the event any direct debit hereunder is returned for insufficient funds, Borrower shall pay Agent upon demand, in immediately available funds, all amounts and expenses due and owing to Agent.

Conversion or Continuation.

Subject to Section 2.1.2. and this Section 2.2.2, the Borrower shall have the option (a) at any time, to convert all or any part of its outstanding Base Rate Loans to Fixed Rate Loans, or (b) upon the expiration of any Borrowing Period applicable to a Fixed Rate Loan **provided** ***that, there does not exist a Default or an Event of Default at such time. If a Default or an Event of Default shall exist upon the expiration of the Borrowing Period applicable to any Fixed Rate Loan, such Loan automatically shall be converted into a Base Rate Loan.***

If the Borrower elects to convert or continue a Loan under this Section 2.2.2, it shall deliver to the Agent a Notice of Continuation/Conversion substantially in the form of Exhibit B-5, duly completed and executed by a Responsible Officer (a "Notice of Continuation/Conversion"), not later than 10:00 a.m. (Pacific Coast time) at least three LIBOR Business Days before the proposed conversion or continuation date, if the Borrower proposes to convert into, or to continue, a LIBOR Rate Loan.

Any Notice of Continuation/Conversion shall be irrevocable and the Borrower shall be bound to convert or continue in accordance therewith. If any request for the conversion or continuation of a Loan is not made in accordance with this Section 2.2.2, or if no notice is so given with respect to a LIBOR Rate Loan as to which the Borrowing Period expires, then such Loan automatically shall be converted into a Base Rate Loan.

Computations.

Interest on each Loan and all Fees and other amounts payable hereunder or the other Loan Documents shall be computed on the basis of a 360-day year and the actual number of days elapsed. Any change in the interest rate on any Loan or other amount resulting from a change in the rate applicable thereto (or any component thereof) pursuant to the terms hereof shall become effective as of the opening of business on the day on which such change in the applicable rate (or component) shall become effective.

Maximum Lawful Rate of Interest.

The rate of interest payable on any Loan or other amount shall in no event exceed the maximum rate permissible under Applicable Law. If the rate of interest payable on any Loan or other amount is ever reduced as a result of this Section and at any time thereafter the maximum rate permitted by Applicable Law shall exceed the rate of interest provided for in this Agreement, then the rate provided for in this Agreement shall be increased to the maximum rate provided by Applicable Law for such period as is required so that the total amount of interest received by the Lenders is that which would have been received by the Lenders but for the operation of the first sentence of this Section.

Notes, Etc.

Loans Evidenced by Notes.

The Revolving Loans made by each Lender shall be evidenced by a single Amended and Restated Revolving Loan Note in favor of such Lender. The Amended and Restated Loan Notes shall each be dated the Amended and Restated Closing Date and stated to mature in accordance with the provisions of this Agreement applicable to the relevant Loans.

Notation of Amounts and Maturities, Etc.

The Agent is hereby irrevocably authorized to generate a computer record of the information contemplated by Schedule A to the Notes and to attach same to the Notes (or a continuation thereof). The failure to record, or any error in recording, any such information shall

not, however, affect the obligations of the Borrower hereunder or under any Note to repay the principal amount of the Loans evidenced thereby, together with all interest accrued thereon. All such notations made in good faith shall constitute conclusive evidence of the accuracy of the information so recorded, in the absence of manifest error.

Loan Account.

The Agent shall maintain a loan account (the "Loan Account") on its books in which shall be recorded (a) all Loans made by the Lenders to the Borrower pursuant to this Agreement, (b) all other appropriate debits and credits as and when due in accordance with this Agreement, including all Fees, charges, expenses and interest, and (c) all payments made by the Borrower on the Obligations. All entries in the Loan Account shall be made in accordance with the customary accounting practices of the Agent as in effect from time to time.

Fees.

Facility Fee.

On each October 1, January 1, April 1 and July 1 of each year (each a "Facility Fee Payment Date"), the Borrower shall pay in advance to the Agent, for the pro rata benefit of the Lenders, a facility fee (the "Base Facility Fee") for the Fiscal Quarter then commencing equal to one-fourth of the product of (i) the aggregate Commitments times (ii) 0.20%. In addition to the Base Facility Fee payable pursuant to the immediately preceding sentence, on each Facility Fee Payment Date, if the average daily Revolving Commitment Usage with respect to all Lenders during the calendar quarter immediately preceding such Facility Fee Payment Date was less than $10,000,000, then the Borrower shall pay in arrears to the Agent, for the pro rata benefit of the Lenders, a facility fee (the "Additional Facility Fee") for the immediately preceding Fiscal Quarter equal to one-fourth of the product of (i) the aggregate Commitments times (ii) 0.05%. The Base Facility Fee and the Additional Facility Fee are collectively referred to herein as the "Facility Fee."

[1.1.1 Intentionally Deleted.

Other Fees.

On the Amended and Restated Closing Date and from time to time thereafter as specified in the Fee Letter, the Borrower shall pay to the Agent the fees specified in the Fee Letter.

Fees Non-Refundable.

All fees shall be fully earned when accrued hereunder and shall be non-refundable.

Termination and Reduction of Revolving Commitment; Extension.

Termination.

Unless extended pursuant to Section 2.5.2 hereof, each Lender's Revolving Commitment shall terminate without further action on the part of such Lender on the earlier to occur of (a) the Maturity Date (or if that date is not a Business Day, the next preceding LIBOR Business Day) (the "Stated Revolving Commitment Termination Date"), and (b) the date of termination of the Revolving Commitment pursuant to Section 7.2 (such earlier date being referred to herein as the "Revolving Commitment Termination Date").

Extension.

Borrower may request extensions of the Maturity Date by making such request to Agent ("Extension Notice") in writing at least ninety (90) days prior to each anniversary of the Amended and Restated Closing Date (commencing with the anniversary falling on August 1, 2003). The Agent and the Lenders have no obligation to extend the Maturity Date and the Maturity Date shall not be extended unless (i) the Borrower is in full compliance with all of the terms, conditions and covenants of this Agreement at the time of request and on the applicable anniversary Date, (ii) all of the Lenders and the Agent have agreed to do so in writing, (iii) Borrower shall, on or prior to the applicable anniversary, have executed and delivered to the Agent an extension agreement in the form provided by Agent, and (iv) Borrower shall, on or prior to the applicable anniversary, provided all Lenders shall have approved the request, have remitted to the Agent the extension fee mutually agreed upon by Borrower and Agent, and have satisfied any other conditions to extension, agreed to between Borrower and the Agent. If Borrower's request for extension is approved and the other foregoing conditions are met, then (i) the extension of the Maturity Date shall be for a period of one (1) year and (ii) such extension shall be effective as of the applicable anniversary. The Agent and the Lenders shall have a period of forty-five (45) days from receipt of written notice of Borrowers' intention to extend the Maturity Date to approve such extension, in their sole and absolute discretion. If Borrower has not received written notice of the Lenders' intention to extend the Maturity Date within such forty-five (45) day period, then the extension request shall be deemed to be not approved. If an extension is granted, Borrower may request subsequent one (1) year extensions subject to the same criteria and procedures established in this Section 2.5.2. As an example, in order to extend the initial Maturity Date, Borrower must notify Agent at least ninety (90) days prior to August 1, 2003. If approved, the Maturity Date would then be extended from August 1, 2005 to August 1, 2006. In the event that Borrower's initial request for extension is not granted, any subsequent request for extension is not granted, or Borrower does not request an extension pursuant to this Section 2.5.2, then, commencing on the Maturity Date, Borrower shall no longer be able to obtain Loans hereunder and all outstanding Loans shall become all due and payable.

Repayments and Prepayments.

Mandatory Prepayment.

Excess Revolving Loans.

If at any time the aggregate Revolving Commitment Usage of all Lenders exceeds the aggregate amount of the Revolving Commitments, the Borrower shall, on or prior to two (2) Business Days after the day on which a Responsible Officer of the Borrower learns or is notified of the excess, make mandatory prepayments of the Revolving Loans as may be necessary so that, after such prepayment, such excess is eliminated.

If at any time on or prior to the Revolving Commitment Termination Date, there is an Overdraw, the Borrower shall, on or prior to two (2) Business Days after the day on which a Responsible Officer of the Borrower learns or is notified of the Overdraw, make mandatory prepayments of the Revolving Loans as may be necessary, so that, after such prepayment, such Overdraw is eliminated (unless prior thereto the Borrower has taken such actions as have resulted in a sufficient increase in Availability to eliminate such Overdraw).

Each Mandatory Prepayment shall be applied to the unpaid principal amount of Revolving Loans; *provided* that each Mandatory Prepayment shall be applied first to reduce the Base Rate Loan constituting a portion of the respective Loan and then to the Fixed Rate Loans constituting a portion thereof, in the order of termination of Borrowing Periods applicable thereto. Each Mandatory Prepayment shall be made together with accrued interest on the amount prepaid to the date of prepayment.

Optional Prepayments.

Subject to this Section 2.6.2, the Borrower may, at its option, at any time or from time to time, prepay the Loans in whole or in part, without premium or penalty, **provided** ***that (a) any prepayment shall be in an aggregate principal amount of at least Two Hundred Thousand Dollars ($200,000.00) and in integral multiples of Ten Thousand Dollars ($10,000.00) (or, alternatively, the whole amount of Loans then outstanding) and (b) any prepayment of a Fixed Rate Loan, if made on a day other than the last day of the Borrowing Period applicable thereto, shall be made with amounts payable pursuant to Section 2.9.5.***

If the Borrower elects to prepay a Loan under this Section 2.6.2.2, it shall deliver to the Agent a notice of optional prepayment (a) not later than 10:00 a.m. (Pacific Coast time) at least three LIBOR Business Days before the proposed prepayment, if the Borrower proposes to prepay a LIBOR Rate Loan, and (b) otherwise not later than 10:00 a.m. (Pacific Coast time) on the Business Day on which Borrower proposes to prepay a Loan. Any notice of optional prepayment shall be irrevocable, and the payment amount specified in such notice shall be due and payable on the date specified in such notice. Each optional prepayment shall be applied pro-rata to the unpaid principal amount of Revolving Loans.

Payments Set Aside.

To the extent the Agent or any Lender receives payment of any amount under the Loan Documents, whether by way of payment by the Borrower, the Guarantor, set-off or otherwise, which payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, other law or equitable cause, in whole or in part, then, to the extent of such payment received, the Obligations or part thereof intended to be satisfied thereby shall be revived and continue in full force and effect as if such payment had not been received by the Agent or Lender. If prior to any such invalidation, declaration, setting aside or requirement, this Agreement shall have been canceled or surrendered, this Agreement shall be reinstated in full force and effect, and such prior cancellation or surrender shall not diminish, discharge or otherwise affect the obligations of the Borrower in respect of the amount of the affected payment.

Manner of Payment.

The amount of each payment under this Agreement or on the Notes shall be made in lawful money of the United States of America, in immediately available funds. Each such payment shall be made to the Agent, for the account of each of the Lenders or for the account of the Agent, as the case may be. All payments received by the Agent from the Borrower after 10:00 a.m., Pacific Coast time, on any Business Day, or on a day which is not a Business Day, shall be deemed received on the next succeeding Business Day.

Each payment or prepayment of principal or interest on the Notes shall be made and applied pro rata among the Lenders according to the unpaid principal amount of the Note held by each Lender (with appropriate adjustments for the periods during which each Lender's share of such amount was loaned by or otherwise owing to such Lender);

provided, however, that the Borrower shall have no liability whatsoever for the Agent's failure to so apply any such payment.

Following receipt by the Agent from the Borrower of any payment under this Agreement or on the Notes, the Agent shall, prior to 2:00 p.m., Pacific Coast time, of the Business Day such payment is deemed received, initiate wire transfers to the other Lenders in immediately available funds of the portions of such payment to which they are entitled under this Agreement. Delivery of a payment by the Borrower to the Agent shall discharge all of the Borrower's obligations to the Lenders with respect to the making of the payment. In no event shall the Borrower have any liability for any failure by the Agent to pay over to the Lenders their respective shares of payments made by the Borrower.

Whenever any payment to be made pursuant to this Agreement or on any Note is due on a day that is not a Business Day, payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest.

Any payment of the principal of any LIBOR Rate Loan shall be made on a LIBOR Business Day.

The Agent (and each Lender with respect to its own pro rata portion of Loans) shall keep a record of Loans made by each Lender and payments of principal with respect to each Note, and such record shall be presumptive evidence of the principal amount owing under each Note.

Each payment of principal and interest and all other amounts payable by the Borrower under this Agreement and the other Loan Documents shall be made free and clear of, and without reduction or offset for or by reason of, any offset, counterclaims, taxes (except as permitted by Section 2.10.3), assessments or other charges imposed by any Governmental Agency.

Pro Rata Treatment.

Except to the extent otherwise expressly provided herein, Revolving Loans shall be requested from the Lenders, pro rata according to their respective Revolving Commitments.

Additional Fees and Costs.

So long as any Lender, any Assignee Lender or Participant is required to maintain reserves against LIBOR Obligations under Regulation D, the Borrower shall pay to any such Lender, Assignee Lender or Participant, with respect to each LIBOR Rate Loan, a fee (hereinafter referred to as a "LIBOR Fee") (determined as though the LIBOR Lending Office of such Lender, Assignee Lender or Participant had funded one hundred percent (100%) of such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, such LIBOR Rate Loan in the Designated Market) calculated as follows:

(i) [LIBOR Rate applicable to the LIBOR Rate Loan] divided by [(1 minus rate [expressed as a decimal] of reserve requirements under Regulation D in respect of LIBOR Obligations)] minus [LIBOR Rate applicable to the LIBOR Rate Loan], times

(ii) [average daily unpaid principal amount of such Lender's pro rata portion of or such Assignee Lender's or Participant's share in such LIBOR Rate Loan] times [number of days in the applicable Borrowing Period divided by 360].

Notification that a LIBOR Fee is payable shall be given within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder that such LIBOR Fee is payable, and may be given by telephone if communicated to a Responsible Officer or, if an attempt has been made by such Lender, Assignee Lender or Participant in good faith to communicate with any Responsible Officer and such attempt is not successful, then another responsible official of the Borrower and, in either case, confirmed within a reasonable time by letter to the Borrower, with a copy of such letter sent concurrently to the Agent. The LIBOR Fee with respect to each LIBOR Rate Loan or share therein shall be payable on the later of: (i) the last day of the applicable Borrowing Period; or (ii) five (5) calendar days after the relevant Lender, Assignee Lender or Participant notifies the Borrower of the amount due, except that (x) if notification of the amount due is not given within ninety (90) days after such LIBOR Fee becomes payable with respect to the applicable Borrowing Period, then the Borrower shall be allowed to pay such amount within thirty (30) days after the date upon which notification is given; and (y) on final payment of any Note in full, any LIBOR Fee with respect to any LIBOR Rate Loan made thereunder not earlier paid or earlier payable pursuant hereto shall be payable on the date of payment of such Note. In determining the amount of any LIBOR Fee payable pursuant to this Section, each Lender, Assignee Lender or Participant shall take into account any transitional adjustment or phase-in provisions of the reserve requirements which would reduce the reserve requirements otherwise applicable to LIBOR Obligations during the applicable Borrowing Period, and in the event of any change or variation in the reserve requirements during the applicable Borrowing Period, each Lender, Assignee Lender or Participant may use any reasonable averaging or attribution method which it deems appropriate. The determination by each Lender, Assignee Lender or Participant of the amount of any LIBOR Fee payable to it shall be conclusive in the absence of manifest error. Terms used in Regulation D shall have the same meanings when used in this Section.

If, after the date of this Agreement, the occurrence of any Special Circumstance shall:

(i) Subject any Lender, Assignee Lender or Participant, or the LIBOR Lending Office of any Lender, any Assignee Lender or Participant, to any tax, duty or other charge or cost, or shall change the basis of taxation of payments to any Lender, Assignee Lender or Participant of the principal of or interest on such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or the obligation of such Lender to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein (except for changes in the rate of tax on the overall net income of such Lender, such Assignee Lender or Participant, or the LIBOR Lending office of such Lender, Assignee Lender or Participant, imposed by the jurisdiction in which the principal executive office or LIBOR Lending office of such Lender, Assignee Lender or Participant is located);

(ii) Impose, modify or deem applicable any reserve (including without limitation any reserve imposed by the Board of Governors of the Federal Reserve System other than with regard to Regulation D), special deposit or similar requirements against assets of, deposits with or for the account of, or credit extended by, any Lender, any Assignee Lender or Participant or the LIBOR Lending office of any Lender, Assignee Lender or Participant; or

(iii) Impose on any Lender, Assignee Lender or Participant, the LIBOR Lending Office of any Lender, Assignee Lender or Participant, or the Designated Market any other condition affecting any Lender's pro rata portion of or any Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or the obligation of such Lender to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein, or this Agreement, or shall otherwise affect any of the same;

and the result of any of the foregoing would, in the reasonable opinion of such Lender, Assignee Lender or Participant, increase the cost to such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant of permitting, making, maintaining or funding any LIBOR Rate Loan or share therein, or with respect to such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or its obligation to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein, or reduce the amount of any sum received or receivable by such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant with respect to any LIBOR Rate Loan, such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or its obligation to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein (assuming such Lender, Assignee Lender or Participant [or, in the case of a LIBOR Rate Loan, the LIBOR Lending Office of such Lender, Assignee Lender or Participant] had funded one hundred percent [100%] of such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, such LIBOR Rate Loan in the Designated Market), then, within ten (10) calendar days following notice and demand by such Lender, Assignee Lender or Participant, which demand shall be made within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder that such increased cost or reduction has been incurred, the Borrower shall pay to such Lender, Assignee Lender or Participant such additional amount or amounts (taking into account any LIBOR Fee paid to such Lender, Assignee Lender or Participant by the Borrower pursuant to Section 2.9.1) as will compensate such Lender, Assignee Lender or Participant for such increased cost or reduction. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.2 shall notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). Notwithstanding the foregoing, if demand is not made within ninety (90) days after such increased cost or reduction is incurred, then the Borrower shall be allowed to pay such amount within thirty (30) days after the date upon which demand is made. The Borrower hereby indemnifies each Lender, Assignee

Lender or Participant against, and agrees to hold each Lender, Assignee Lender or Participant harmless from and reimburse each Lender, Assignee Lender or Participant on demand for, all costs, expenses, claims, penalties, liabilities, losses, legal fees and damages incurred or sustained by such Lender, Assignee Lender or Participant in connection with this Agreement, any share in this Agreement or any of the rights, obligations or transactions provided for or contemplated herein as a result of the occurrence of any Special Circumstance. A statement of any Lender, Assignee Lender or Participant in good faith claiming compensation under this Section 2.9.2 and setting forth the additional amount or amounts to be paid to it pursuant to this Agreement shall be conclusive in the absence of manifest error or knowing misrepresentation.

If, after the date of this Agreement, the occurrence of any Special Circumstance shall, in the reasonable opinion of any Lender, Assignee Lender or Participant, make it unlawful, impossible or impractical for such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant to permit, make, maintain or fund any LIBOR Rate Loan or share therein, or materially restrict the authority of such Lender, Assignee Lender or Participant to purchase or sell, or to take deposits of, nonpersonal time deposits, or to determine or charge interest rates based upon the LIBOR Rate, then such Lender's obligation to make LIBOR Rate Loans shall be suspended for the duration of such illegality, impossibility or impracticality and such Lender shall immediately give notice thereof to the Borrower. Upon receipt of such notice, the outstanding principal amount of all LIBOR Rate Loans shall be automatically converted to Base Rate Loans on either: (i) the last day of the applicable Borrowing Period(s) if such Lender, Assignee Lender or Participant may lawfully continue to maintain and fund such LIBOR Rate Loans or shares therein to such day(s); or (ii) immediately if such Lender, Assignee Lender or Participant may not lawfully continue to fund and maintain such LIBOR Rate Loans to such day(s); provided that in such event the conversion shall not be subject to payment of a prepayment fee pursuant to Section 2.9.5.

If, with respect to any proposed LIBOR Rate Loan:

(i) the Agent reasonably determines that, by reason of circumstances affecting the Designated Market generally which are beyond the reasonable control of the Lenders, Assignee Lenders or Participants, deposits in dollars (in the applicable amounts) are not being offered to each of the Lenders, Assignee Lenders or Participants in the Designated Market for the applicable Borrowing Period; or

(ii) the Agent reasonably determines that the LIBOR Rate: (i) does not represent the effective pricing to such Lenders, Assignee Lenders or Participants for deposits in dollars in the Designated Market in the relevant amount for the applicable Borrowing Period; or (ii) will not adequately and fairly reflect the cost to such Lenders, Assignee Lenders or Participants of making the applicable LIBOR Rate Loan or share therein;

then the Agent shall forthwith give notice thereof to the Borrower, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no

longer exist, the obligation of the Lenders to permit (and the Borrower's right to designate) any future LIBOR Rate Loans shall be suspended.

Upon payment or prepayment of any LIBOR Rate Loan, or conversion of a LIBOR Rate Loan (other than a conversion required under Section 2.9.3), on a day other than the last day of the applicable Borrowing Period (whether involuntarily, by reason of acceleration or otherwise), the Borrower shall pay to the Agent a prepayment fee calculated as follows (and determined as though one hundred percent (100%) of the LIBOR Rate Loan had been funded in the Designated Market):

the Interest Differential with respect to such LIBOR Rate Loan (which, when received by the Agent, shall be distributed by the Agent to the Lenders in proportion to their respective Lender Commitments); plus

All out-of-pocket expenses incurred by the Lenders and reasonably attributable to such payment or prepayment (which, when received by the Agent, shall be distributed by the Agent to the Lenders in amounts corresponding to their respective out-of-pocket expenses);

provided that no prepayment fee shall be payable (and no credit or rebate shall be required) under Section 2.9.5.1 if the Interest Differential with respect to such LIBOR Rate Loan is not positive. The determination by the Agent of the amount of any prepayment fee payable under this Section 2.9.5 shall be conclusive in the absence of manifest error.

The Borrower hereby indemnifies each Lender, Assignee Lender and Participant against, and agrees to hold each Lender, Assignee Lender and Participant harmless from and reimburse each Lender, each Assignee Lender and Participant within ten (10) calendar days following notice and demand (which notice and demand must be made within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder) for, all costs, expenses, claims, penalties, liabilities, losses, legal fees and damages (including without limitation any interest paid or that would be paid by any Lender, Assignee Lender or Participant for deposits in dollars in the Designated Market and any loss sustained or that would be sustained by any Lender, Assignee Lender or Participant in connection with the reemployment of funds) incurred or sustained, or that would be incurred or sustained, by each such Lender, Assignee Lender or Participant, as reasonably determined by each such Lender, Assignee Lender or Participant, as a result of any failure of the Borrower to consummate, or the failure of any condition required for the consummation or effectiveness of, any LIBOR Rate Loan on the date or in the amount requested by the Borrower, such indemnification to be determined as though each Lender, Assignee Lender and Participant (or, in the case of a LIBOR Rate Loan, the LIBOR Lending office of each Lender, Assignee Lender and Participant) had or would have funded one hundred percent (100%) of its pro rata portion of, or share in, such LIBOR Rate Loan in the Designated Market. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.6 shall notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). Notwithstanding the foregoing, if demand is not made within ninety (90) days after the date upon which the event giving rise to liability of the Borrower under this

Section 2.9.6 occurs, then the Borrower shall be allowed to pay the amounts demanded within thirty (30) days after the date upon which demand is made. The determination in good faith of such amount by each Lender, Assignee Lender and Participant shall be conclusive in the absence of manifest error.

In the event that any Lender, Assignee Lender or Participant shall have determined that the adoption of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, or any change therein or in the interpretation or application thereof, or the compliance by such Lender, Assignee Lender or Participant with any request or directive regarding capital adequacy (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction, does or shall have the effect of (i) increasing the amount of capital required to be maintained by such Lender, Assignee Lender or Participant with respect to Loans made by such Lender or shares in Loans by such Assignee Lender or Participant and/or the Lender Commitment of such Lender or obligations of such Assignee Lender or Participant to fund portions of any Lender Commitment, or (ii) increasing the cost to such Lender with respect to making any Loan made by such Lender or issuing or maintaining the Commitments of such Lender, or increasing the cost to such Assignee Lender or Participant of funding or issuing or maintaining its share in any Loan or Commitment, then the Borrower shall from time to time, within fifteen (15) days after written notice and demand from such Lender, Assignee Lender or Participant, which notice and demand shall be given and made within a reasonable time, pay to such Lender, Assignee Lender or Participant, additional amounts sufficient to compensate such Lender, Assignee Lender or Participant for the cost of such additional required capital. A certificate prepared in good faith, evidencing the basis of such calculation in reasonable detail, as to the amount of such cost, submitted to Borrower by such Lender, Assignee Lender or Participant, shall, absent manifest error, be final, conclusive and binding for all purposes. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.7 shall notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). No Lender, Assignee Lender or Participant shall have the right to collect payments from the Borrower pursuant to this Section 2.9.7 unless it is the policy of such Lender, Assignee Lender or Participant, at the time of such collection, to collect similar payments from borrowers (if any) who are comparable to the Borrower, in connection with credit facilities to such borrowers which credit facilities are similar to those made available pursuant to this Agreement, where the documents governing such credit facilities establish the right of such Lender, Assignee Lender or Participant to collect such payments.

Each Lender, Assignee Lender and Participant shall, at the request of the Borrower, provide reasonable detail to the Borrower regarding the manner in which the amount of any payment requested by it pursuant to the provisions of Section 2.9 has been determined.

Any request by any Lender Party for payment of additional amounts pursuant to Sections 2.9.1 through 2.9.4 and 2.9.7 shall be accompanied by a certificate of such Lender

Party setting forth the basis and amount of such request. In determining the amount of such payment, such Lender Party may use such reasonable attribution or averaging methods as it deems appropriate and practical.

Taxes.

If the Borrower is required by Applicable Law to make any deduction or withholding in respect of any Taxes (other than Excluded Taxes) from any amount payable under any Loan Document to or for the account of any Lender Party, the Borrower shall pay to or for the account of such Lender Party, on the date such amount is payable, such additional amounts as such Lender Party reasonably determines may be necessary so that the net amounts received by it or for its account, in the aggregate, after all applicable deductions or withholdings, shall equal the amount that such Lender Party would have been entitled to receive if no deductions or withholdings were made. "Excluded Taxes" means, with respect to any payment to any Lender Party, any (a) taxes imposed on or measured by the overall net income (including a franchise tax based on net income) of such Lender Party by the United States of America or any political subdivision or taxing authority thereof or therein, and (b) any taxes imposed on or measured by the overall net income (including a franchise tax based on net income) of such Lender Party or its agent's Offices or Lending Office in respect of which the payment is made, by the jurisdiction in which it is incorporated, maintains its principal executive office or in which such agent's Lending Office is located. Whenever any such Taxes (other than Excluded Taxes) are payable by the Borrower, as promptly as possible after payment is made, the Borrower shall send to such Lender Party a certified copy of any original official receipt received by the Borrower showing payment.

If any Lender Party is required by law to make any payment on account of Taxes (other than Excluded Taxes) on or in relation to any sum received or receivable by it under any Loan Document, or any liability for Taxes (other than Excluded Taxes) in respect of any such payment is imposed, levied or assessed against such Lender Party, then the Borrower shall pay when due such additional amounts as such Lender Party reasonably determines to be necessary so that the amount received by it, less any such Taxes paid, imposed, levied or assessed, including any Taxes (other than Excluded Taxes) imposed on such additional amounts, shall equal the amount that such Lender Party would have been entitled to retain in the absence of the payment, imposition, levy or assessment of such Taxes. Each Lender Party shall make reasonable efforts to minimize the amount of such Taxes and shall remit to the Borrower any refunds of Taxes paid, less the costs of such Lender Party expended in obtaining such refund.

Notwithstanding Section 2.10.1, if any Lender Party is not organized and existing under the laws of the United States of America or any political subdivision thereof or therein (a "Foreign Lender Party"), the Borrower shall be entitled, in respect of payments to or for the account of such Foreign Lender Party, to the extent it is required to do so by Applicable Law, to deduct or withhold (and shall not be required to make payments as otherwise required in Section 2.10.1 on account of such deductions or withholdings) Taxes imposed by the United States of America, except (a) Taxes (other than Excluded Taxes) payable as a result of any Regulatory Change (i) after the date hereof (in the case of any

Foreign Lender Party hereto on the date hereof) or (ii) after the date on which such Lender Party becomes a Lender Party (in the case of any Foreign Lender Party becoming a party hereto after the date hereof pursuant to Section 9.6) and (b) if the Foreign Lender Party shall on the date hereof (or on a subsequent date on which such Foreign Lender Party becomes a Lender Party pursuant to Section 9.6) be entitled to furnish, and the Borrower shall have been furnished by such Foreign Lender Party, a duly executed certificate to the effect that such Foreign Lender Party is entitled to receive all such payments without deduction or withholding of such Taxes imposed by the United States (a) pursuant to the terms of an applicable tax treaty in effect with the United States of America (in which case such certificate shall be accompanied by two executed copies of IRS Form 1001), (B) under Code Section 1441(c) (in which case such certificate shall be accompanied by two executed copies of IRS Form 4224) or (C) pursuant to an exemption certificate received from the IRS (in which case such certificate shall be accompanied by a copy of such exemption certificate) (such forms or statements being the "Prescribed Forms".) Such Foreign Lender Party shall thereafter, to the extent entitled under Applicable Law, provide to the Borrower new Prescribed Forms upon the obsolescence of any previously delivered form, in each case duly executed and completed by such Foreign Lender Party. If the Borrower shall so deduct or withhold any Taxes, it shall provide a statement to such Foreign Lender Party, setting forth the amount of such Taxes so deducted or withheld, the applicable rate and any other information or documentation that such Foreign Lender Party may reasonably request.

Lending Office; Discretion of Lenders as to Manner of Funding.

Each Lender may make, carry or transfer Fixed Rate Loans at, to, or for the account of an Affiliate of the Lender, *provided* that such Lender shall not be entitled to receive any greater amount under Section 2.10 as a result of the transfer of any such Loan than such Lender would be entitled to immediately prior thereto unless (a) such transfer occurred at a time when circumstances giving rise to the claim for such greater amount did not exist or (b) such claim would have arisen even if such transfer had not occurred. Notwithstanding any other provision of this Agreement, each Lender shall be entitled to fund and maintain its funding of all or any part of its Fixed Rate Loans in any manner it sees fit, it being understood, *however,* that for purposes of this Agreement all determinations hereunder shall be made as if each Lender had actually funded and maintained each Fixed Rate Loan through the purchase of deposits in the relevant interbank market having a maturity corresponding to such Loan's Borrowing Period and bearing interest at the applicable rate.

CONDITIONS TO LOANS

Closing Conditions.

The occurrence of the Amended and Restated Closing Date shall be subject to satisfaction of the following conditions:

Certain Documents.

The Agent shall have received the documents listed on Schedule 3.1.1, and the Lenders shall have received the Amended and Restated Revolving Loan Notes, all of which shall be in form and substance satisfactory to the Agent and the Lenders.

Fees and Expenses Paid.

The Borrower shall have paid all Fees and expenses then due and payable, on the Amended and Restated Closing Date.

General.

All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered or executed in form and substance satisfactory to the Agent and the Lenders and the Agent shall have received all such counterpart originals or certified copies thereof as Agent may request.

Conditions Precedent to Loans.

The obligation of the Lenders to make any Loan on any Funding Date shall be subject to the following conditions precedent:

Conditions Precedent.

The conditions precedent set forth in Section 3.1 shall have been satisfied.

Notice of Borrowing.

The Borrower shall have delivered to the Agent, after the time the conditions set forth in Section 3.1 shall have been satisfied or waived and otherwise in accordance with the applicable provisions of this Agreement, a Notice of Borrowing.

Representations and Warranties.

All of the representations and warranties of the Borrower contained in the Loan Documents shall be true and correct in all material respects on and as of the Funding Date as though made on and as of that date.

No Default.

No Default or Event of Default shall exist or result from the making of the Loan.

No Overdraw.

There shall be no Overdraw then in existence.

Covenant Compliance.

The Borrower Parties shall be in full compliance with the financial covenants set forth in Section 6.4.

No Material Adverse Change.

No Material Adverse Change shall have occurred since the date of the financial statements most recently delivered to the Lenders pursuant hereto (or, in the case of any Funding Date prior to the delivery of financial statements pursuant hereto, since the date of the financial statements referred to in Section 4.5.2.

Satisfaction of Conditions.

Each borrowing of a Loan shall constitute a representation and warranty by the Borrower as of the Funding Date that the conditions contained in Sections 3.2.3 through 3.2.7 have been satisfied.

REPRESENTATIONS AND WARRANTIES

Organization, Powers and Good Standing.

Each of the Borrower Parties (a) is duly organized as a corporation, partnership or other organization, as shown as of the date hereof on Schedule 4.1, (b) is validly existing and in good standing under the laws of its jurisdiction of organization, as shown as of the date hereof on Schedule 4.1, and (c) has all requisite corporate, partnership or other organizational power and authority and the legal right to own and operate its properties, to carry on its business as heretofore conducted and as proposed to be conducted, to enter into the Loan Documents to which it is a party and to carry out the transactions contemplated thereby. Each of the Borrower Parties is duly qualified and in good standing authorized to do business in each state or other jurisdiction where the nature of its business activities conducted or proposed to be conducted or properties owned or leased requires it to be so qualified, unless the failure to be so qualified would not have a Material Adverse Effect on Borrower. The Borrower is a partnership for purposes of federal income taxation and for purposes of the tax laws of any state or locality in which the Borrower is subject to taxation based on its income. Guarantor is organized in conformity with the requirements for qualification as a REIT and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.

Authorization, Binding Effect, No Conflict, Etc.

Authorization, Binding Effect, Etc.

As of the Amended and Restated Closing Date or any date thereafter, (a) the execution, delivery and performance by each Borrower Party of each Loan Document to which it is or will be a party have been duly authorized by all necessary corporate, partnership or other

organizational action on the part of such Borrower Party; (b) each such Loan Document has been duly executed and delivered by such Borrower Party and (c) is the legal, valid and binding obligation of such Borrower Party, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.

No Conflict.

The execution, delivery and performance by any Borrower Party of each Loan Document to which it is or will be a party, and the consummation of the transactions contemplated thereby, do not and will not (a) violate any provision of the charter or other organizational documents of such Borrower Party, (b) conflict with, result in a breach of, or constitute (or, with the giving of notice or lapse of time or both, would constitute) a default under, or require the approval or consent of any Person pursuant to, any material Contractual Obligation of any Borrower Party, or violate any Applicable Law binding on any Borrower Party, except for consents that have been obtained and are in full force and effect, or (c) result in the creation or imposition of any Lien upon any asset of the Borrower.

Partnership Units; General Partner.

Guarantor owns 20,190,727 Partnership Units (as defined in partnership agreement of the Borrower), free and clear of any Liens. All partnership units owned by Guarantor were offered and sold in compliance with all Applicable Law (including, without limitation, federal and state securities laws). Except as set forth on Schedule 4.2.3, there are no outstanding securities convertible into or exchangeable for partnership units of the Borrower, or options, warrants or rights to purchase any such partnership units, or commitments of any kind for the issuance of additional partnership units or any such convertible or exchangeable securities or options, warrants or rights to purchase such partnership units. Guarantor is the sole general partner of the Borrower.

Governmental Approvals.

No Governmental Approval is or will be required in connection with the execution, delivery and performance by any Borrower Party of any Loan Document to which it is party or the transactions contemplated thereby. Each Borrower Party and each of the other Consolidated Entities possesses all Government Approvals, in full force and effect, that are necessary for the ownership, maintenance and operation of its properties and conduct of its business as now conducted and proposed to be conducted and the absence of which would not result in a Material Adverse Effect on any Borrower Party, and is not in violation thereof.

Guarantor.

All of the outstanding shares of Capital Stock of the Guarantor have been duly authorized and validly issued and are fully paid and nonassessable. Except as disclosed on Schedule 4.3, as amended from time to time, there are not outstanding any securities convertible into or exchangeable for shares of Capital Stock of the Guarantor, or any options, warrants or other rights to purchase any such Capital Stock, or any commitments of any kind for the issuance

of additional shares of such Capital Stock or any such convertible or exchangeable securities or options, warrants or rights to purchase such Capital Stock. Except for directors qualifying shares or similar arrangements or as disclosed on Schedule 4.3, neither the Borrower nor Guarantor is a party to any agreement with respect to the issuance, voting or sale of issued or unissued shares of Capital Stock of the Guarantor.

Subsidiaries.

The Borrower has no Subsidiaries except as set forth in Schedule 4.4.

Financial Information.

The consolidated balance sheets of the Borrower and Guarantor as of December 31, 2000 and December 31, 2001 and the consolidated statements of income, retained earnings and cash flow of the Borrower and Guarantor for the Fiscal Years then ended, certified by the Borrower's independent certified public accountants, copies of which have been delivered to the Lender Parties, were prepared in accordance with GAAP consistently applied and fairly present the consolidated financial position of the Borrower and its Consolidated Subsidiaries, as of the respective dates thereof and the results of operations and cash flow of the Guarantor, the Borrower and its Consolidated Subsidiaries for the periods then ended. No Borrower Party nor any Consolidated Subsidiary on such dates had any material Contingent Obligations, liabilities for Taxes or long-term leases, forward or long-term commitments or unrealized losses from any unfavorable commitments that are not reflected in the foregoing statements or in the notes thereto and which are Material.

The unaudited consolidated balance sheet of the Guarantor as at September 30, 2001, March 31, 2002 and June 30, 2002 and related statements of income, retained earnings and cash flow for the period then ended, certified by the Chief Financial Officer of the Guarantor, a copy of which has been delivered to the Lender, were prepared in accordance with GAAP consistently applied (except to the extent noted therein) and fairly present the consolidated financial position of the Guarantor, the Borrower and the Consolidated Entities as of such date and the results of operations and cash flow for the period covered thereby, subject to normal year-end audit adjustments. No Borrower Party nor any Consolidated Entity had on such date any material Contingent Obligations, liabilities for Taxes or long-term leases, unusual forward or long-term commitments or unrealized losses from any unfavorable commitments which are not reflected in the foregoing statements or in the notes thereto and which are Material.

Except as otherwise disclosed in writing to and approved in writing by the Agent prior to the date hereof, with respect to the Projections: (a) all assumptions made therein were, in the Borrower Parties' reasonable business judgment, reasonable under the circumstances existing at the time of preparation of the Projections, and (b) the forecasts or projections contained therein were, in the Borrower Parties' reasonable business judgment, reasonably based on the assumptions contained therein.

No Material Adverse Changes.

Since June 30, 2002 there has been no Material Adverse Change.

Litigation.

Except as disclosed in Schedule 4.7, there are no actions, suits or proceedings pending or, to the best knowledge of the Borrower, threatened against or affecting any Borrower Party or any of their respective properties before any Governmental Authority (a) in which there is a reasonable possibility of an adverse determination that could result in a Material liability or have a Material Adverse Effect or (b) that in any manner draws into question the validity, legality or enforceability of any Loan Document or any transaction contemplated thereby.

Agreements; Applicable Law.

No Borrower Party is in violation of any Applicable Law, or in default under any of its Contractual Obligations, except where such violation or default could not individually or in the aggregate have a Material Adverse Effect. No Borrower Party is a party to or bound by any unduly burdensome Contractual Obligation that, individually or in the aggregate, has a Material Adverse Effect.

Taxes.

All income tax returns of the Borrower Parties have been filed with the appropriate Governmental Authority through the fiscal year ended December 31, 2001. All United States Federal income tax returns and all other material tax returns required to be filed by the Borrower Parties have been filed and all Taxes due pursuant to such returns have been paid, except such Taxes, if any, as are being contested in good faith and as to which adequate reserves have been established in accordance with GAAP. To the best knowledge of the Borrower, there have not been asserted or proposed to be asserted any Tax deficiency against any Borrower Party that would be Material that is not reserved against on the financial books of the Borrower and its Subsidiaries. No Borrower Party is a party to or obligated under any Tax sharing or similar agreement.

Governmental Regulation.

No Borrower Party is (a) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or a company controlled by such a company, or (b) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or to any Federal or state, statute or regulation limiting its ability to incur Debt for money borrowed (other than the Margin Regulations).

Margin Regulations.

No Borrower Party is engaged principally, or as one of its important activities, in the business of extending credit for the purposes of purchasing or carrying Margin Stock. The value of all Margin Stock held by the Borrower Parties constitutes less than 25% of the value, as determined in accordance with the Margin Regulations, of all assets of the Borrower Parties. The execution, delivery and performance of the Loan Documents by the Borrower Parties will not violate the Margin Regulations.

Intentionally Omitted.

Title to Property.

Each Borrower Party has good fee title to, or valid and existing leasehold interests in, all of its Real Property reflected in its books and records as being owned or leased by it. Each of the Real Properties listed in Schedule 1.1C is an Unencumbered Asset.

Intellectual Property, Etc.

Each Borrower Party owns or holds valid licenses in and to all Trademarks, copyrights, patents, trade secrets and other intellectual property rights that are material to the conduct of its business as heretofore operated and as proposed to be conducted. No Borrower Party has infringed, or been charged or, to the best knowledge of the Borrower, threatened to be charged with any infringement of, any unexpired Trademark, copyright, patent, trade secret or other intellectual property right of any Person where such infringement could result in a Material Adverse Effect on any of the Borrower Parties.

Environmental Condition.

Except as disclosed in Schedule 4.15.1, to the best knowledge of the Borrower, each Real Property in the Unencumbered Pool is free from contamination from any Hazardous Materials. To the best knowledge of the Borrower, no polychlorinated biphenyls (PCBs) (including PCBs contained in dialectic fluid in any transformers, capacitors, ballasts or other equipment) stored, used or located on, or disposed of at any Real Property in the Unencumbered Pool in violation of Applicable Law and no asbestos is stored, used or located on, or has been disposed of at, any Real Property in the Unencumbered Pool, other than asbestos that does not pose a hazard to human health, which is not required to be remediated under Applicable Law, and which is subject to an operations and maintenance plan of the Borrower which restricts and regulates the disturbance thereof. Neither the Borrower Parties nor, to the best knowledge of the Borrower, any prior owner or other user of any Real Property in the Unencumbered Pool has caused or suffered any Environmental Damages.

Except as disclosed in Schedule 4.15.2, neither the Borrower Parties nor, to the best knowledge of the Borrower, any prior owner or other user of any Real Property in the Unencumbered Pool has received notice of any actual or alleged violation of Environmental Requirements, or notice of any actual or alleged liability for Environmental Damages in connection with any Real Property in the Unencumbered Pool. There exists no order, judgment or decree, and there is not pending or, to the best knowledge of the Borrower, threatened, any action, suit, proceeding or investigation relating to any actual or alleged liability arising out of the presence or suspected presence of Hazardous Material, any actual or alleged violation of Environmental Requirements or any actual or alleged liability for Environmental Damages in connection with any Real Property in the Unencumbered Pool or the business or operations of any of the Borrower Parties nor, to the best knowledge of the Borrower, does there exist any basis for such action, suit, proceeding or investigation being instituted or filed.

There is no violation of Environmental Requirements with respect to any Real Property owned by any Borrower Party which Real Property is not in the Unencumbered Pool,

which violation has a Material Adverse Effect on the Borrower. The Borrower is not obligated to pay Environmental Damages with respect to any Real Property not in the Unencumbered Pool which payment has a Material Adverse Effect on the Borrower.

None of the Real Property in the Unencumbered Pool has been designated as Border Zone Property under the provisions of California Health and Safety Code, Sections 25220 et seq. or any comparable statute and there has been no occurrence or condition on any real property adjoining or in the vicinity of any of the Real Property in the Unencumbered Pool that could cause any of such Real Property or any part thereof to be designated as Border Zone Property.

Labor Matters.

There are no material strikes or other material labor disputes or material grievances pending or, to the best knowledge of the Borrower, threatened against any Borrower Party. Except as set forth in Schedule 4.16, there are no collective bargaining agreements to which any Borrower Party is a party. Each Borrower Party has complied in all material respects with the requirements of the Worker Adjustment and Restraining Notification Act, 29 U.S.C. Section 2101 et seq. (the "WARN Act"). No claim under the WARN Act is pending or, to the best knowledge of the Borrower, threatened against any Borrower Party nor is there any reasonable basis to anticipate any such claim.

Disclosure.

All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Borrower Party or any Affiliate thereof with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement was true and correct in all material respects as of the date of such document, certificate or statement. There is no fact known to the Borrower (other than matters of a general economic nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates or statements. To the best of the Borrower's knowledge, all factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Person (other than a Borrower Party or an Affiliate of any Borrower Party) with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement was true and correct in all material respects as of the date of such document, instrument or certificate and the Borrower has no actual knowledge, without duty of investigation or inquiry, of any materially untrue or misleading statement or omission therein.

4.18 ERISA

Neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Plan subject to Title IV of ERISA has occurred, and no Lien in

favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits. Neither the Borrower nor any ERISA Affiliate has had a complete or partial withdrawal from any Multiemployer Plan, and neither the Borrower nor any ERISA Affiliate would become subject to any liability under ERISA if the Borrower or any such ERISA Affiliate were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. No Multiemployer Plan is in reorganization or insolvent.

AFFIRMATIVE COVENANTS OF THE BORROWER

So long as any portion of the Commitment is in effect or any Obligations remain unpaid or have not been performed in full, the Borrower covenants with the Lender Parties as follows:

Financial Statements and Other Reports.

The Borrower shall deliver to the Agent:

As soon as practicable and in any event within ninety-five (95) days after the end of each Fiscal Year, (i) the consolidated balance sheet of the Borrower Parties as of the end of such year and the related consolidated statements of income, stockholders' equity and cash flow of the Borrower Parties, for such Fiscal Year, setting forth in each case in comparative form the consolidated figures for the previous Fiscal Year, all in reasonable detail and (ii) the consolidated balance sheet of the Borrower Parties as of the end of such year and the related consolidated statements of income, stockholder's equity and cash flow for such fiscal years, all in reasonable detail and, in each case, certified by the Guarantor's chief financial officer as fairly presenting the consolidated financial condition of the Borrower Parties as of the dates indicated and the consolidated results of operations and cash flows for the periods indicated. With respect to the financial statements of Borrower Parties, such statements shall be accompanied by an unqualified report thereon of Ernst & Young, LLP or other independent certified public accountants of recognized national standing selected by the Borrower Parties and reasonably satisfactory to the Agent, which report shall state that such statements fairly present the financial position of the Borrower Parties as of the date indicated and their results of operations and cash flows for the periods indicated in conformity with GAAP (except as otherwise stated therein) and that the examination by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards.

As soon as practicable and in any event within fifty (50) days after the end of each of the first three (3) Fiscal Quarters during each Fiscal Year a consolidated balance sheet of the Borrower Parties as of the end of such quarter and the related consolidated statements of

income, stockholders' equity and cash flow for such quarter and the portion of the Fiscal Year ended at the end of such quarter, setting forth in each case in comparative form the consolidated figures for the corresponding periods of the prior Fiscal Year, all in reasonable detail and certified by the Guarantor's chief financial officer as fairly presenting the consolidated financial condition of the Borrower Parties as of the dates indicated and the consolidated results of operations and cash flows for the periods indicated, subject to normal year-end adjustments and made in accordance with GAAP.

Within ninety-five (95) days after the end of each Fiscal Quarter ending December 31 and within fifty (50) days after the end of each other Fiscal Quarter, a certificate of the senior vice-president, corporate finance, chief financial officer, controller or treasurer of the Guarantor substantially in the form of Exhibit F (a "Compliance Certificate"), (a) duly completed setting forth the calculations required to establish Availability and compliance with Section 6.4 on the date of such financial statements and (b) stating that, to the best knowledge of such officer, after making such inquiry and other investigation as such officer deems reasonable under the circumstances, no Default exists or, if a Default does exist, the nature thereof and the action that the Borrower proposes to take with respect thereto.

Within ninety-five (95) days after the end of each Fiscal Quarter ending December 31 and within fifty (50) days after the end of each other Fiscal Quarter, a report showing Available Financing as of the end of such Fiscal Quarter.

An Unencumbered Pool report which includes for each Unencumbered Asset, the Property NOI for such Fiscal Quarter with reasonable detail as to all Property Expenses, Capital Expenditures incurred, and average Occupancy Rate during the Fiscal Quarter. This portion of the report shall be submitted to the Agent within ninety-five (95) days after the end of each Fiscal Quarter ending December 31 and within fifty (50) days after the end of each other Fiscal Quarter.

Within three (3) Business Days after the Borrower becomes aware of the occurrence of any Default or Event of Default, a certificate of a Senior Officer of the Borrower setting forth the details thereof and the action that the Borrower is taking or proposes to take with respect thereto.

Promptly upon their becoming available and in any event within five (5) Business Days after submission to the SEC, copies of all financial statements, reports (including forms 10Q and 10K), notices and proxy statements sent or made available by the Guarantor to its security holders, all registration statements (other than the exhibits thereto) and annual, quarterly or monthly reports, if any, filed by the Guarantor with the SEC and all press releases by the Borrower or the Guarantor concerning material developments in the business of the Borrower or the Guarantor.

At any time after the Borrower has any employees and is required to comply with ERISA or has any ERISA Affiliates which are required to comply with ERISA, within three (3) Business Days after any of the Borrower Parties becomes aware of the occurrence of

(a) any Reportable Event in connection with any Plan, (b) any Prohibited Transaction in connection with any Plan or Multiemployer Plan (or any trust created thereunder), (c) any assertion against Borrower or any ERISA Affiliate of complete or partial withdrawal liability under Title IV of ERISA from any Multiemployer Plan, (d) any partial or complete withdrawal by the Borrower or any ERISA Affiliate from any Multiemployer Plan, (e) any cessation of operations by the Borrower or any ERISA Affiliate at a facility in the circumstances described in Section 4062(e) of ERISA, (f) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA, (g) the failure by the Borrower or any ERISA Affiliate to make a payment to a Plan required under Section 302(f)(1) of ERISA, (h) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA, (i) the PBGC's intent to terminate any Plan administered or maintained by the Borrower or any ERISA Affiliate, impose liability (other than for premiums under Section 4007 of ERISA) or to have a trustee appointed to administer any such Plan, (j) the failure to make any payment or contribution relating to any Plan or Multiemployer Plan or make any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, (k) any application for a waiver under Section 412 of the Code of a Plan's minimum funding standard, (1) any Multiemployer Plan is in reorganization, is insolvent or has been terminated, or (m) any Plan is terminated pursuant to Section 4041(c) of ERISA, a written notice specifying the nature thereof, and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or the PBGC with respect thereto.

Within three (3) Business Days after the Borrower obtains knowledge thereof, notice of all litigation or proceedings commenced or threatened affecting any Borrower Party (a) that involves alleged liability in excess of Five Million Dollars ($5,000,000) (in the aggregate) and which is not covered by insurance (or, if purportedly covered by insurance, then as to which the insurer has reserved its rights with respect to such coverage), (b) in which injunctive or similar relief is sought that, if obtained, could have a Material Adverse Effect or (c) that questions the validity or enforceability of any Loan Document.

Within three (3) Business Days after the receipt thereof, a copy of any notice, summons, citation or written communication concerning any actual, alleged, suspected or threatened violation of Environmental Requirements, or liability of any Borrower Party for Environmental Damages, where the amount in controversy is equal to or greater than Five Million Dollars ($5,000,000.00).

Within five (5) Business Days after the availability thereof, copies of all amendments to the charter, bylaws or other organizational documents of the Borrower or the Guarantor.

Each Borrower Party shall deliver or cause to be delivered to the Agent, as the Agent may from time to time request, schedules identifying all insurance then in effect and certificates evidencing such insurance.

Promptly upon request of the Agent, copies of each Schedule B (Actuarial Information) to the most recent annual report (Form 5500 Series) with respect to each Plan (if any).

From time to time such additional information regarding the Borrower Parties, the Guarantor, the Consolidated Entities and the Unconsolidated Joint Ventures or their respective businesses, assets, liabilities, prospects, results of operation or financial condition as the Agent (or any Lender through the Agent) may reasonably request, including without limitation evidence regarding the Lien status of any Real Property in the Unencumbered Pool.

Records and Inspection.

The Borrower Parties shall maintain adequate books, records and accounts as may be required or necessary to permit the preparation of consolidated financial statements in accordance with sound business practices and GAAP. The Borrower Parties shall permit such Persons as the Agent may designate, after reasonable advance notice, during normal business hours, and as often as may be requested, to (a) visit and inspect any of the Real Properties of any Borrower Party or the offices of any Borrower Party, (b) inspect and copy any Borrower Party's books and records, and (c) discuss with its officers and employees and its independent accountants, its business, assets, liabilities, prospects, results of operation or financial condition; *provided, however,* that (i) representatives of the Borrower Parties may be present during all such inspections and discussions, (ii) each person designated by the Agent shall take reasonable steps to minimize disruption to the operations of such Borrower Party caused by such inspection; and (iii) nothing contained herein shall require any Borrower Party to permit any Lender to examine or otherwise have access to any matter that is protected from disclosure by the attorney-client privilege or the doctrine of attorney work product.

Corporate Existence, Etc.

Except as permitted pursuant to Section 6.9, each Borrower Party shall at all times preserve and keep in full force and effect its corporate existence and all Material rights and franchises.

Payment of Taxes.

Each Borrower Party shall pay and discharge all Taxes imposed upon it or any of its properties or in respect of any of its franchises, business, income or property before any penalty shall be incurred with respect to such Taxes, *provided, however,* that, unless and until foreclosure, distraint, levy, sale or similar proceedings shall have commenced, a Borrower Party need not pay or discharge any such Tax so long as the validity or amount thereof is being contested in good faith and by appropriate proceedings and so long as any reserves or other appropriate provisions as may be required by GAAP shall have been made therefor.

Maintenance of Properties.

Each Borrower Party shall maintain or cause to be maintained in good repair, working order and condition (ordinary wear and tear excepted), all Real Properties and other assets useful or necessary to its business, and from time to time each Borrower Party shall make or cause to be made all appropriate repairs, renewals and replacements thereto; *provided, however,* that the failure to maintain a particular item of property (other than an improved Real

Property) that is not of significant value to such Borrower Party or which is obsolete shall not constitute a violation of this covenant.

Maintenance of Insurance.

Each Borrower Party shall maintain in full force and effect with insurers duly licensed in the applicable jurisdictions insurance of such types and in such amounts as are customarily carried in their respective lines of business, including, but not limited to, fire, hazard, public liability, property damage, products liability and workers' compensation insurance.

Conduct of Business.

No Borrower Party shall engage in any business other than the businesses in which the Borrower and the Guarantor are engaged on the date hereof or any businesses substantially similar or related thereto. Each Borrower Party shall conduct its business in compliance in all material respects with all Applicable Law and all its Contractual Obligations.

Further Assurances.

At any time and from time to time, upon the request of the Agent, each Borrower Party shall execute and deliver such further documents and do such other acts and things as the Agent may reasonably request in order to effect fully the purposes of the Loan Documents and any other agreement contemplated thereby and to provide for payment and performance of the Obligations in accordance with the terms of the Loan Documents.

Future Information.

All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party after the date hereof and prepared by any Borrower Party or any Affiliate thereof with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement will be true and correct in all material respects as of the date of such document, certificate or statement. Each fact known to the Borrower (other than matters of a general economic nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates or statements will be disclosed promptly to the Agent in writing promptly after a Responsible Officer learns thereof. All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Person (other than a Borrower Party or an Affiliate of any Borrower Party) with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement will, to the Borrower's actual knowledge, without duty of investigation or inquiry, be true and correct in all material respects as of the date of such document, instrument or certificate except as disclosed by the Borrower to the Lender Parties in writing concurrently with the delivery to the Lender Parties of such document, instrument or certificate; *provided, however,* that Borrower makes no representation, warranty, or covenant regarding the truth or accuracy of any third party research reports regarding the business and operations of the Guarantor which may hereafter be delivered to the Lender Parties.

Intentionally Omitted.

Limitation on Guarantor.

The sole Investments of Guarantor shall at all times be (i) its general partnership interest in Borrower, (ii) any wholly-owned Subsidiary of the Guarantor which Subsidiary's sole business is the construction, ownership and operation of Office Park Property owned by the Borrower and its Subsidiaries, (iii) Cash, Cash Equivalents and institutional money market funds organized under the laws of the United States of America or any state thereof that invest solely in Cash Equivalents, and (iv) loans to employees of the Guarantor for the purpose of purchasing the Capital Stock of the Guarantor pursuant to a program therefor adopted by the Guarantor. The Guarantor shall not at any time incur any Liabilities other than (i) Liabilities for which the Guarantor is jointly and severally liable due to its status as the general partner in the Borrower, (ii) Liabilities for overhead, payroll and employee-related expenses, (iii) Liability relating to any guaranty or suretyship executed by the Guarantor of the Borrower's obligations; and (iv) Liabilities relating to obligations of wholly-owned Subsidiaries of the Guarantor not to exceed at any time Two Million Dollars ($2,000,000) in the aggregate (including Contingent Obligations). The aggregate value of real property owned by Guarantor (valued at the lesser of Acquisition Cost or Market Value) together with Investments held by Guarantor shall not at any time exceed ten percent (10%) of Gross Asset Value (calculated solely with respect to Guarantor).

Environmental Matters.

Promptly upon discovery of any violation or alleged violation of Environmental Requirements with respect to any Real Property of any Borrower Party, the Borrower shall attempt in good faith as soon as practicable to determine the cost to remediate such violation of Environmental Requirements and the Borrower shall thereupon notify the Agent in writing of the Borrower's reasonable, good faith estimate of the cost to remediate such violation or alleged violation. Such good faith estimate of the cost of remediation (exclusive of costs and expenses of investigation), as revised from time to time pursuant hereto, shall be deemed to be the "Liquidated Cost" of such violation or alleged violation of Environmental Requirements. From time to time thereafter, not less than ninety-five (95) days after the end of each Fiscal Quarter ending December 31 and not less than fifty (50) days after the end of each other Fiscal Quarter, the Borrower shall review and update all Liquidated Costs and shall deliver a written report to the Agent setting forth, in reasonable detail, each Liquidated Cost in excess of Two Million Five Hundred Thousand Dollars ($2,500,000), the basis for the determination of the Liquidated Cost, and the Borrower's plans with respect to such violation or alleged violation of Environmental Requirements.

The Borrower Parties shall at all times comply in all material respects with all Environmental Requirements.

Listing and Organizational Requirements.

The Borrower shall cause the Guarantor to continue to list its Capital Stock on the AMEX or any other national stock exchange and continue to qualify as a REIT, and the Borrower will do or cause to be done all things necessary to cause it to be treated as a partnership for purposes of federal income taxation and the tax laws of any state or locality in which the Borrower is subject to taxation based on its income.

Intentionally Omitted.
Change of Management.

Borrower shall provide to Lender prompt notice of (i) any change in the senior management of the Borrower, or any other Subsidiary and (ii) any change in the business, assets, liabilities, financial condition, results of operations or business prospects of the Borrower or any Subsidiary which has had or could have a Material Adverse Effect.

NEGATIVE COVENANTS OF THE BORROWER PARTIES

So long as any portion of the Commitment is in effect or any Obligations remain unpaid or have not been performed in full:

Payment of Obligations.

Each Borrower Party shall pay within ninety (90) days of its receipt of a bill therefor all Accounts Payable, except that a Borrower Party shall not be required, under this Section 6.1, to pay (a) any Account Payable (or portion thereof) that is being actively contested in good faith by appropriate proceedings or (b) any Account Payable so long as the aggregate amount of Accounts Payable of all Borrower Parties with respect to which a Borrower Party has received a bill more than ninety (90) days prior to the date of calculation does not exceed One Million Dollars ($1,000,000). For purposes of this Section 6.1, "Accounts Payable" means all amounts owed by the Borrower Parties from time to time, arising out of the conduct of their respective businesses, including utility charges, amounts owing under open purchase orders, service contracts or equipment leases, and other amounts owing with respect to maintenance, clean-up, landscaping and other services performed in connection with the operation of the Borrower Parties' respective businesses. The term "Accounts Payable" shall not include indebtedness for borrowed money, amounts owing with respect to federal, state or local taxes, insurance premiums or amounts a Borrower Party is required to contribute to any Borrower Plan.

Investments.

No Borrower Party shall, directly or indirectly, make or own any investment, except:

Cash, Cash Equivalents or institutional money market funds organized under the laws of the United States of America or any state thereof that invest solely in Cash Equivalents;

(a) Trade credit extended on usual and customary terms in the ordinary course of business, and (b) advances to employees for moving, relocation and travel expenses, drawing accounts and similar expenditures in the ordinary course of business;

Existing Office Park Property or land upon which the Borrower plans to develop commercial office, light industrial or retail projects;

Subsidiaries engaged in the construction or operation of Office Park Property;

Any material acquisition, merger, formation, or investment in a Joint Venture, asset purchase, or any transfer of assets permitted pursuant to Section 6.9; or

Subject to the limits established pursuant to Sections 6.4.8, 6.4.9, 6.4.10, 6.4.11, 6.4.12 and 6.4.13, Debt payable to a Borrower Party which is secured by mortgages or deeds of trust on real estate, marketable equity securities, and unconsolidated Joint Ventures.

Asset Dispositions.

Subject to Section 6.5, the Borrower may sell, lease or otherwise dispose of assets in the normal course of its business and so long as such dispositions do not result in a violation of any other provision of this Agreement.

Financial Covenants.

Ratio of Total Liabilities to Gross Asset Value.

The ratio of Total Liabilities to Gross Asset Value shall not at any time exceed 0.45:1.

Ratio of Unencumbered Asset Value to Outstanding Unsecured Liabilities.

The ratio of Unencumbered Asset Value to Outstanding Unsecured Liabilities shall at all times be not less than 2.0:1.0

Minimum Tangible Net Worth.

Tangible Net Worth of Borrower and Guarantor shall not be less than, at any time: (i) $1,000,000,000 plus (ii) ninety percent (90%) of Equity Offering Net Proceeds.

Secured Debt to Gross Asset Value.

The ratio of Secured Debt to Gross Asset Value shall not be greater than 0.30:1.0.

Interest Coverage.

At any time, the ratio of EBITDA to Interest Expense for the most recently completed Fiscal Quarter shall not be less than 2.25:1.0.

Fixed Charge Coverage.

At any time, the ratio of EBITDA to Fixed Charges for the most recently completed Fiscal Quarter shall not be less than 1.75:1.0.

Distributions.

Restricted Payments paid by the Borrower during the four immediately preceding Fiscal Quarters shall not at any time exceed ninety-five percent (95%) of Funds from Operations, calculated for such four Fiscal Quarters, except if, and then only to the extent, a greater distribution is required in order for Guarantor to (i) maintain its status as a REIT or (ii) permit Guarantor to pay no federal income tax under either Section 857(b)(1) of the Code or Section 857(b)(3)(A) of the Code; provided that a distribution on account of clause (ii) of this Section 6.4.7 shall be permitted one time only during the term of this Agreement and such distribution shall be preceded by Agent's receipt of a proforma Compliance Certificate prepared and certified by Borrower, which Compliance Certificate shall be current and shall give effect to such greater distribution having occurred. In either such event, Borrower shall promptly notify the Agent in writing of the amount of such greater distribution.

Land Holdings.

The aggregate value of Land Holdings of Borrower and Guarantor (valued at the lesser of acquisition cost or market value) shall not at any time exceed ten percent (10%) of Gross Asset Value.

Securities Holdings.

The aggregate value of Capital Stock of any Person other than in Joint Ventures which is owned by Borrower Parties (valued at the lesser of acquisition cost or market value) shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

Debt Holdings.

The aggregate value of any Debt payable to Borrower Parties shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

Joint Ventures.

The aggregate value of Capital Stock of any Joint Venture which is owned by Borrower Parties (valued at the lesser of acquisition cost or market value) shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

Construction-In-Progress.

The aggregate rentable square footage of Construction-in-Progress that is not subject to signed leases between the applicable Borrower Party and the tenant for such space shall not at any time exceed ten percent (10%) of the aggregate rentable square footage of the Real Property. In addition, the aggregate rentable square footage of all Construction-in-Progress shall not at any time exceed twenty percent (20%) of the aggregate rentable square footage of the Real Property.

Other Assets.

The aggregate value of Other Assets owned by Borrower Parties (valued at the lesser of Acquisition Cost or Market Value) shall not at any time exceed forty percent (40%) of Gross Asset Value.

Unsecured Interest Expense Coverage.

At any time, the ratio of Unencumbered Net Operating Income to Unsecured Interest Expense shall not be less than 2.00:1.0.

Restriction on Fundamental Changes.

Except as permitted pursuant to Section 6.9, no Borrower Party shall directly or indirectly, enter into any merger, consolidation, reorganization or recapitalization, reclassify its Capital Stock, liquidate, wind up or dissolve or sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its or their business or assets, whether now owned or hereafter acquired.

Transactions with Affiliates.

Borrower Parties shall not, directly or indirectly, permit to exist or enter into any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Borrower or with any director, officer or employee of any Subsidiary, except transactions in the ordinary course of, and pursuant to, the reasonable requirements of the business of the Borrower or any of its Subsidiaries and upon fair and reasonable terms and are no less favorable to the Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate.

ERISA.

In the event that the Borrower ever has any employees, the Borrower will not, and will not permit any ERISA Affiliate to: (a) engage in any Prohibited Transaction or engage in any conduct or commit any act or suffer to exist any condition that could give rise to any excise tax, penalty, interest or liability, (b) fail to make any payments to any Multiemployer Plan that the Borrower or any of its ERISA Affiliates may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto; or (c) voluntarily terminate or amend any one or more of their Plans, if such termination would result in the imposition of Liens on the Borrower or any ERISA Affiliate.

Amendments of Charter Documents.

None of the Borrower Parties shall amend its charter, bylaws, partnership agreement or other organizational documents in any material respect, without in each case obtaining the prior written consent of the Majority Lenders, which consent will not be unreasonably withheld, conditioned or delayed, except to increase the percentage of shares that may be owned by any person and to reflect issuances of securities.

Certain Obligations.

No Borrower Party shall engage in any material acquisition, merger, formation, investment in any partnership/joint venture/Subsidiary, asset acquisition (other than of Office Park Property) or transfer of assets without first giving notice thereof to Agent and certifying compliance with all covenants of this Agreement after giving effect to the proposed transaction. For purposes of this Section 6.9, "material" is defined as any transaction in which the obligation of a Borrower Party equals or exceeds ten percent (10%) of Gross Asset Value. With respect to any proposed acquisition of Office Park Property, if the Acquisition Price of such Office Park Property is greater than ten percent (10%) of Gross Asset Value, then within 15 days prior to the scheduled closing of the acquisition Borrower must certify compliance with all covenants of this Agreement after giving effect to the proposed transaction.

Distributions.

Unless waived by the Majority Lenders, no Borrower Party shall make any Restricted Payments after the occurrence of and during the continuation of an Event of Default under Section 7.1.1 and no Borrower Party shall make any Restricted Payment in excess of that required to maintain Guarantor's status as a REIT after the occurrence of and during the continuation of a Material non-monetary Event of Default under Section 7.1.

EVENTS OF DEFAULT

Events of Default.

The occurrence of any one or more of the following events, acts or occurrences shall constitute an event of default (each an "Event of Default"):

Failure to Make Payments.

The Borrower (a) shall fail to pay as and when due (whether at stated maturity, upon acceleration, upon required prepayment or otherwise) any principal of any Loan, or (b) shall fail to pay any interest within ten (10) days after it first becomes due, or (c) shall fail to pay Fees or other amounts payable under the Loan Documents when due under the Loan Documents; or

Default in Other Debt.

Any Borrower Party shall have defaulted (beyond any applicable grace period) under any Debt of such party (other than the Obligations) if the aggregate amount of such other

Debt is Two Million Five Hundred Thousand Dollars ($2,500,000) or more and such default shall not have been cured or waived; or

Breach of Covenants.

Any Borrower Party shall fail to perform, comply with or observe any agreement, covenant or obligation under any of the Loan Documents (other than those set forth in the other subsections of this Section 7.1) and such failure shall continue for a period of thirty (30) days after notice of such failure is given by the Agent; or

Breach of Warranty.

Any representation or warranty or certification made or furnished by any Borrower Party under any Loan Document shall prove to have been false or incorrect in any Material respect when made (or deemed made); or

Involuntary Bankruptcy; Appointment of Receiver, Etc.

There shall be commenced against any Borrower Party an involuntary case seeking the liquidation or reorganization of such Borrower Party under Chapter 7 or Chapter 11, respectively, of the Bankruptcy Code or any similar proceeding under any other Applicable Law or an involuntary case or proceeding seeking the appointment of a receiver, liquidator, sequestrator, custodian, trustee or other officer having similar powers of any Borrower Party or to take possession of all or any portion of its property or to operate all or a substantial portion of its business, and any of the following events occur: (a) such Borrower Party consents to the institution of the involuntary case or proceeding; (b) the petition commencing the involuntary case or proceeding is not timely controverted; (c) the petition commencing the involuntary case or proceeding remains undismissed or undischarged and unstayed for a period of sixty (60) days; or (d) an order for relief shall have been issued or entered therein; or

Voluntary Bankruptcy; Appointment of Receiver, Etc..

Any Borrower Party shall institute a voluntary case seeking liquidation or reorganization under Chapter 7 or Chapter 11, respectively, of the Bankruptcy Code or any similar proceeding under any other Applicable Law, or shall consent thereto; or shall consent to the conversion of an involuntary case to a voluntary case; or shall file a petition, answer a complaint or otherwise institute any proceeding seeking, or shall consent to or acquiesce in the appointment of, a receiver, liquidator, sequestrator, custodian, trustee or other officer with similar powers of it or to take possession of all or a substantial portion of its property or to operate all or a substantial portion of its business; or shall make a general assignment for the benefit of creditors; or shall generally not pay its debts as they become due; or such Borrower Party (or any committee thereof) adopts any resolution or otherwise authorizes action to approve any of the foregoing; or

Judgments and Attachments.

(a) A final unappealable judgment against a Borrower Party shall be entered for the payment of money in excess of Three Million Dollars ($3,000,000.00) and shall remain unsatisfied without procurement of a stay of execution within thirty (30) calendar days after the date of entry of judgment; or (b) a judgment creditor shall obtain a lien against or possession of any Real Property in the Unencumbered Pool by any means, including levy, distraint, replevin or self-help; or

Termination of Loan Documents, Etc.

Any Loan Document, or any material provision thereof, shall cease to be in full force and effect for any reason, except upon a release or termination of such Loan Document pursuant to the terms thereof; or any Borrower Party shall contest or purport to repudiate or disavow any of its obligations under or the validity of enforceability of any Loan Document or any material provision thereof; or

Change of Control.

A Change of Control shall occur; or

Change of Condition.

The Majority Lenders reasonably determine that a change has occurred since the date of this Agreement in the operations, business or condition, financial or otherwise, which change has a material and adverse effect on the ability of any of the Borrower Parties to perform its obligations under the Loan Documents, and fifteen (15) days have elapsed since the date that notice of such determination has been given to such Borrowing Party; or

Guaranty.

An Event of Default shall occur under the Guaranty.

Remedies.

Upon the occurrence of an Event of Default:

If an Event of Default occurs under Section 7.1.5 or 7.1.6, then the Commitment shall automatically and immediately terminate, and the obligation of the Lender Parties to make any Loan hereunder shall cease, and the unpaid principal amount of the Loans and all other Obligations shall automatically become immediately due and payable, without presentment, demand, protest, notice or other requirements of any kind, all of which are hereby expressly waived by the Borrower.

If an Event of Default occurs, other than under Section 7.1.5 or 7.1.6, the Majority Lenders may declare the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable,

whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by the Borrower.

The order and manner in which the Lenders' rights and remedies are to be exercised shall be determined by the Majority Lenders in their sole discretion. Regardless of how each Lender may treat payments received by it for the purpose of its own accounting, for the purpose of computing the Borrower's obligations under this Agreement and under the Notes, all moneys collected or received by the Agent on account of the Obligations or in respect of the security for the Obligations, directly or indirectly, shall be applied in the following order of priority:

to the payment of all proper and reasonable costs and expenses actually incurred in the collection of such moneys;

to the payment of all proper and reasonable costs and expenses (including attorneys' fees and disbursements and the allocated costs and expenses of in-house legal and other professional services) of the Agent, acting as Agent, and of the Lenders as set forth above;

(a) in case the entire unpaid principal of the Obligations shall not have become due and payable, first to the payment of interest on the Obligations ratably to the Lenders as their respective pro rata shares appear, and then to the payment of principal to the Lenders as their respective pro rata shares appear, or (B) in case the entire unpaid principal of the Loan shall have become due and payable, to the payment of the whole amount then due and payable on the Obligations until paid in full, for principal to the Lenders as their respective pro rata shares appear, and for interest ratably to the Lenders as their respective pro rata shares appear; and

to the payment of all other amounts (including fees) then owing to the Agent or the Lenders under the Loan Documents.

No application of the payments will cure any Event of Default or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents or prevent the exercise, or continued exercise, of rights or remedies of the Lenders under this Agreement or under law.

APPOINTMENT, POWERS AND DUTIES OF LENDERS AND AGENT

Relationship of Borrower and Lenders.

It is expressly understood and agreed that with the exception of this Section 8.1, the provisions of ARTICLE 8 are among, and for the benefit of, the Lenders and the Agent only and contain terms, conditions and agreements to which the Borrower is not bound, under which the Borrower does not have rights, and with which the Borrower need not be concerned. Each of the Lenders and the Agent hereby agrees that as to all matters relating to the Loans and any other

provision contained in this Agreement to which the Borrower is bound, unless expressly stated to the contrary, the Borrower need only deal with the Agent and need not send notice to or seek the consent or approval of any of the Lenders other than the Agent. The Borrower shall be entitled to rely solely on notices, consents, authorizations and directions received from the Agent and shall have no duty to inquire as to whether the Agent shall have received the consents or approval of the Lenders as provided in this ARTICLE 8. In the event the Agent or any of the Lenders breach their respective obligations under this ARTICLE 8, the sole remedy of the non-breaching parties shall be against the Lender or Agent which committed such breach, and the Borrower shall have no liability for such breach.

Appointment and Authorization.

Each Lender hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof or are reasonably incidental, as determined by the Agent, thereto; and each Lender hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof or are reasonably incidental, as determined by the Agent, thereto. These appointments and authorizations are intended solely for the purpose of facilitating the servicing of the Loans and do not constitute the appointment of the Agent as trustee for any Lender or as a representative of any Lender for any other purpose and, except as specifically set forth in this Agreement to the contrary, the Agent shall take such action and exercise such powers only in an administrative and ministerial capacity.

Agent and Affiliates.

The Agent and each successor thereto, has the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not an Agent. The terms "Lender(s)" or "Lender Parties" includes each Agent. Unless otherwise expressly prohibited hereunder, each Agent and each Lender (and each of the Lenders' respective successors) and its respective Affiliates may accept deposits from, lend money to, and generally engage in any kind of banking, trust or other business with, the Borrower, the Guarantor, any Affiliate of the Borrower or of the Guarantor, as if it were not an Agent or a Lender, as the case may be, and without any duty to account therefor to the other Lenders. No Agent shall be obligated to account to any other Lender for any monies received by it for any credit facility management fees, reimbursement of its costs and expenses as Agent under this Agreement, or for any monies received by it in its capacity as a Lender under this Agreement. If any property is taken by any Agent or any Lender as collateral for any other loans or extensions of credit made by any Agent or any Lender to or for the Borrower, or any property is in any Agent's or any Lender's possession or control, or any deposit is held or other indebtedness is owing by any Agent or any Lender, and that property, deposit or indebtedness, or the proceeds thereof, may be or become collateral for or otherwise available for payment in connection with the Obligations by reason of the general description of secured obligations contained in any security agreement or other agreement or instrument held by any Agent, or any Lender or by reason of a right of setoff, counterclaim or otherwise, the other Lenders shall have no interest in that property, deposit or indebtedness, or the indebtedness, or the proceeds thereof, except that if the property, deposit or indebtedness, or the proceeds thereof, shall be applied in reduction of amounts

outstanding in connection with the Obligations, then each Lender shall be entitled to its pro rata share therein.

Lenders' Credit Decisions.

Each Lender hereby acknowledges that it has received the Loan Documents and financial statements, certificates, instruments, documents, affidavits, resolutions and agreements as it deemed necessary to make its own credit analysis and decision to enter into this Agreement. Each Lender agrees that it has, independently and without reliance upon the Agent, any Lender or the directors, officers, agents or employees of the Agent or any Lender, and instead in reliance upon information supplied to it by or on behalf of the Borrower and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Lender also agrees that it shall, independently and without reliance upon the Agent, any Lender or the directors, officers, agents or employees of the Agent or any Lender, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents.

Action by Agent.

The Agent has only those obligations under the Loan Documents as are expressly set forth therein.

The Agent may assume that no Event of Default has occurred, unless the Agent has actual knowledge of the Event of Default, has received notice from the Borrower stating the nature of the Event of Default, or has received notice from a Lender stating the nature of the Event of Default and that the Lender considers the Event of Default to have occurred.

If the Agent has actual knowledge of an Event of Default, has received notice from the Borrower stating the nature of an Event of Default or has received notice from a Lender stating the nature of an Event of Default, such Agent shall give notice thereof to the Lenders.

Except for any obligation expressly set forth in the Loan Documents and as long as the Agent may assume that no Event of Default has occurred, the Agent may, but shall not be required to, exercise its discretion to act or not act, except that (i) the Agent may, if it elects to do so in its sole discretion, suspend the taking of any action pending receipt of instructions or authorizations from the Majority Lenders of the action to be taken and (ii) the Agent shall be required to act or not act upon the instructions of the Majority Lenders and those instructions shall be binding upon the Agent and all the Lenders, provided that the Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law.

If the Agent has knowledge that an Event of Default has occurred, the Agent shall act or not act upon the instructions of the Majority Lenders, provided that the Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law, and except that if the Majority Lenders fail to instruct the Agent within the time periods set forth herein, then the Agent in its discretion, may act or not act as it deems advisable for the protection of the interests of the Lenders.

The Agent shall have no liability to any Lender for acting, or not acting, notwithstanding any other provision hereof; except for its own gross negligence or willful misconduct while so acting or not acting.

Non-Liability of Agent.

The Agent shall perform its duties under this Agreement and the other Loan Documents with the same degree of care as the Agent would use in performing similar functions with respect to a loan of similar size and type held for its own account. Neither the Agent, nor any of its respective directors, officers, agents or employees shall be liable for any action taken or not taken by them under or in connection with the Loan Documents or as instructed by the Majority Lenders, except for its own gross negligence or willful misconduct. Without limitation on the foregoing, but subject to the foregoing provisions concerning gross negligence or willful misconduct, the Agent and its respective directors, officers, agents and employees:

may treat the payee of any Note as the holder thereof until the Agent receives notice of the assignment or transfer thereof; and may treat each Lender as the owner of that Lender's interest in the Obligations for all purposes of this Agreement until the Agent receives notice of the assignment or transfer thereof;

may consult with legal counsel (including in-house legal counsel), accountants (including in-house accountants) and other professionals or experts selected by it, or with legal counsel, accountants or other professionals or experts for the Borrower, and shall not be liable for any action taken or not taken by it or them in good faith in accordance with the advice of such legal counsel, accountants or other professionals or experts;

make no representation or warranty to any Lender and will not be responsible to any Lender for any statement, warranty or representation made in any of the Loan Documents or in any notice, certificate, report, request or other statement (written or oral) in connection with any of the Loan Documents or the financial condition of the Borrower or any other party or for the title of any collateral hereunder;

except to the extent expressly set forth in the Loan Documents, will have no duty to ascertain or inquire as to the performance or observance by the Borrower of any of the terms, conditions or covenants of any of the Loan Documents or to inspect the property, books or records of the Borrower;

will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency, value or collectability of any Loan Document, or any other instrument or writing furnished pursuant thereto or in connection therewith;

will not be responsible to any Lender for the legality, validity, enforceability, genuineness, sufficiency, perfection (other than the timely filing of any continuation statements for financing statements given to the Agent by the Borrower in connection with the collateral hereunder), value, collectability or priority of any rights in all or any portion of the collateral hereunder;

will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, request or other instrument or writing (which may be by telegram, telecopy, cable or telex) believed by it or them to be genuine and signed or sent by the proper party or parties; and

will not incur any liability for any arithmetical error in computing any amount payable to or receivable from any Lender pursuant to this Agreement, including without limitation principal, interest, fees, Loans and other amounts; provided that promptly upon discovery of such an error in computation, the Agent, the Lenders and (to the extent applicable) the Borrower shall make such adjustments as are necessary to correct such error and to restore the parties to the position that they would have occupied had the error not occurred.

Indemnification.

Each Lender, individually and severally in accordance with its pro rata share, agrees to indemnify, defend, reimburse and hold the Agent (and its directors, officers, agents or employees) ("Indemnified Parties") harmless, within ten (10) Business Days of request therefor (to the extent not reimbursed by the Borrower), in accordance with its pro rata share, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, and costs, expenses or disbursements which may be imposed on, incurred by, or asserted against the Indemnified Parties in any way relating to or arising out of the Obligations, or any action taken or omitted by the Indemnified Parties under the Loan Documents, provided that each Lender shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from: (i) the gross negligence or willful misconduct of the Indemnified Parties or their breach hereunder or (ii) the acts or omissions of any other Lender or Agent. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its pro rata share in any and all out-of-pocket costs, disbursements and expenses (including appraisal fees, third-party expenses and reasonable counsel fees) incurred or made by the Agent or any of them after the Amended and Restated Closing Date in connection with the preparation, execution, delivery, modification, amendment, collection or enforcement (whether through negotiations, legal proceedings, foreclosure or otherwise) of; or legal advice in respect of rights or responsibilities under, the Loan Documents, to the extent that the Agent is not reimbursed for such expenses by the Borrower. In addition, each Lender agrees to reimburse the Agent promptly upon demand for its pro rata share in all protective advances made by the Agent. The Agent shall be entitled to deduct from any payments to be made to any Lender under this Agreement, and to retain, amounts due the Agent as reimbursement hereunder, provided that the Agent shall have first delivered to such Lender thirty (30) days prior written notice of such amounts and the circumstances giving rise thereto, and such Lender has not paid such amounts. The Agent shall make reasonable attempts to collect such amounts referred to in this Section 8.7.1 from the Borrower to the extent that the Borrower is obligated to make such reimbursement under this Agreement. If the Agent receives payment of any amount referred to in this Section 8.7.1 from the Borrower or any third party after a Lender has reimbursed the Agent for such amount, the Agent shall promptly return to such Lender the amount of the reimbursement (or, if more than one Lender made reimbursement, such Lender's ratable portion thereof).

Each Defaulting Lender shall indemnify, defend and hold the Agent and each of the other Lenders harmless from and against any and all losses, damages, liabilities or expenses (including, but not limited to, reasonable attorneys' fees and interest at the Default Rate set forth in the Loan Documents for funds advanced by any of the Agent or any other Lender on account of such Defaulting Lender) which they may sustain or incur by reason of or in consequence of each Defaulting Lender's failure or refusal to abide by its obligations under this Agreement. The Agent shall setoff against principal and interest payments due to each Defaulting Lender for the claims of the Agent and the other Lenders against such Defaulting Lender. The exercise of the above remedies shall not reduce, diminish or

liquidate the Defaulting Lender's pro rata share of the obligations for the sharing of losses and reimbursement of costs, liabilities and expenses under the Loan Documents.

The Agent.

The Agent shall have primary responsibility for the following activities:

(i) Funding the Loans in accordance with the provisions of this Agreement and the Loan Documents. With respect to the respective pro rata shares of the Lenders in the Loans, unless the Agent receives notice from a Lender on or prior to the Closing or, with respect to any Loan made after the Closing, at least one Business Day prior to the date of such Loan, that such Lender will not make available as and when required hereunder to the Agent for the account of the Borrower the amount of such Lender's pro rata share of the Loan, the Agent may assume that each Lender has made such amount available to the Agent in immediately available funds on the Funding Date and the Agent may (but shall not be so required), in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Agent in immediately available funds and the Agent in such circumstances has made available to the Borrower such amount, that Lender shall on the Business Day following such Funding Date make such amount available to the Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Agent submitted to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Agent shall constitute such Lender's Loan on the Funding Date for all purposes of this Agreement. If such amount is not made available to the Agent on the Business Day following the Funding Date, the Agent will notify the Borrower of such failure to fund and, upon demand by the Agent, the Borrower shall pay such amount to the Agent for the Agent's account, together with interest thereon for each day elapsed since the date of such Loan, at a rate per annum equal to the interest rate applicable at the time to such Loan;

(ii) Receiving all payments of principal, interest, fees and other charges paid by, or on behalf of; the Borrower and distribute such funds to the Lenders as specifically required in this Agreement.

Successor Agent.

Upon written notice to the Lenders, the Agent may resign as Agent hereunder at any time without the prior written consent of the Lenders or any of them. Upon any such resignation in accordance with the foregoing provisions, the Majority Lenders shall have the right to appoint a successor Agent (subject to the provisions below).

In addition, the Majority Lenders may elect, by written notice to the Agent, to remove the Agent hereunder for good cause. Upon any such removal in accordance with the foregoing provisions, the Majority Lenders shall have the right to appoint a successor.

If; within thirty (30) days of the giving of notice of the Agent's resignation, a successor Agent has not been appointed by the Majority Lenders or such successor has not accepted

such appointment, the retiring Agent may, on behalf of the Lenders, appoint a successor Agent. Any successor Agent must be a Lender. Upon the acceptance of any appointment as the Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of a retiring (or removed) Agent, including the right to any agency fee to be paid by the Borrower, and the retiring (or removed) Agent shall be discharged from its duties and obligations under this Agreement.

Powers of the Agent.

Except as otherwise expressly provided for in this Agreement, and subject to the provisions of Section 8.11 hereof; the Agent shall have the right, in its sole discretion, in each instance: (a) to grant or withhold approvals under the Loan Documents; (b) to exercise or refrain from exercising any rights which the Agent or the Lenders may have with respect to the obligations, the Loan Documents, or with respect to any of the collateral hereunder; and (c) including, without limitation, the right to:

(i) Receive, review and process all documents, certificates, opinions, insurance policies, reports, requisitions and other materials of every nature and description submitted by, or on behalf of; the Borrower or any other party;

(ii) Enforce all of the rights, remedies and privileges afforded or available to the Lenders under the terms of this Agreement and the other Loan Documents, any opinion, certificates, warranties, representations or insurance policies furnished by or on behalf of the Borrower or any other party (but only after election to declare an Event or Events of Default and/or to accelerate amounts outstanding under the Loan Documents as provided in this Agreement); and

(iii) Do or refrain from doing all such other acts as may be reasonably necessary or incident to the implementation, administration or servicing of the Loan Documents and the enforcement of the rights and remedies of the Lenders.

Limitations on the Agent.

Notwithstanding anything to the contrary herein contained, the Agent shall not (a) agree to the modification or waiver of any of the terms of this Agreement, the Notes, or the other Loan Documents, or (b) consent to any act or omission by the Borrower, or any other party, or (c) exercise any rights which either Agent or the Lenders may have with respect to the Obligations, this Agreement, the Notes, or the other Loan Documents, if any such modification, waiver, agreement, consent or exercise would compromise or settle any litigation or legal proceeding against the Borrower or the Guarantor in connection with the Obligations in any manner which would have a Material and Adverse Effect on the interest of any Lender in the Obligations once such litigation or legal proceeding has been commenced by the Agent; or, unless consented to in writing by the Majority Lenders or by all of the Lenders if required by Section 9.3.1.1.

As to any matters which are subject to the consent of the Majority Lenders (as the case may be), the Agent shall not be permitted to exercise any discretion or take any action except upon the instructions of the Majority Lenders, which instructions shall be binding upon

all Lenders. The Agent and its directors, officers, agents and employees shall be fully protected in acting or in refraining from acting upon such instructions (subject to Section 8.5), but in no event shall the Agent be required to take any action which exposes the directors, officers, agents or employees of the Agent to personal liability or which is contrary to the Loan Documents or applicable Law. As to any matters not expressly provided for by the Loan Documents or this Agreement, the Agent shall not be required to exercise any discretion or take any action, unless such inaction on the part of an Agent exposes the Agent or its directors, officers, agents or employees to personal liability or is contrary to applicable Law. In acting hereunder as an Agent, Agent shall be acting for the account of and as agent for all Lenders, to the extent of their respective pro rata shares in the Obligations.

Approval of Lenders.

All communications ("Communication") from the Agent to the Lenders requesting the Lenders' determination, consent, approval or disapproval (i) shall be given in the form of a written notice to each Lender, (ii) shall be accompanied by a description of the matter or thing as to which such determination, approval, consent or disapproval is requested, or shall advise each Lender where such matter or thing may be inspected, or shall otherwise describe the matter or issue to be resolved, (iii) shall include, if reasonably requested by a Lender and to the extent not previously provided to such Lender, written materials and a summary of all oral information provided to the Agent by the Borrower in respect of the matter or issue to be resolved, and (iv) shall include the Agent's recommended course of action or determination in respect thereof and the date by which the Lender shall respond. Each Lender shall reply promptly, but in any event (x) if this Agreement or any other Loan Document sets forth a period within which the Lenders are to reply to the Communication, each Lender shall reply to the Communication within such period, or (y) if no such period is set forth, within ten (10) Business Days (or such lesser period as may be required under the Loan Documents for the Agent to respond) for those matters requiring the consent by all Lenders, Majority Lenders or less than Majority Lenders, in each instance, after receipt of the request therefore by the Agent (in any event, the "Lender Reply Period").

Unless a Lender shall give written notice to the Agent that it objects to the recommendation or determination of the Agent (together with a written explanation of the reasons behind such objection), within the Lender Reply Period, such Lender shall be deemed to have approved of or consented to such recommendation or determination.

Method of Payment.

Upon receipt of any payments of principal, interest and late payment charges in connection with the Loan Documents or Fees, the Agent shall distribute each such payment in accordance with the applicable provisions of this Agreement. If the Agent fails to make such distribution by the close of business on the Business Day on which such payment is required to be delivered pursuant to the terms of this Agreement, the Agent shall remit to each Lender its Pro Rata Share in such payment on the immediately following Business Day, together with interest thereon at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York. Each payment to the Agent under this Section 8.13 shall constitute a similar payment by the Borrower to each Lender, and any portion of the Obligations paid by any such payment to the Agent by or

on behalf of the Borrower shall not be considered outstanding for any purpose after the date of its receipt by the Agent; provided, however, as between each Lender and the Agent, such payment shall be deemed outstanding until made by the Agent to each Lender in accordance with the provisions above. In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any apportionment or distribution of payments made by it in good faith pursuant to this Agreement, and if any such apportionment or distribution is subsequently determined to have been made in error, the sole recourse of any Person to whom payment was due, but not made, shall be, except as otherwise expressly set forth in this Agreement, to recover from the recipient of such payment any payment in excess of the amount to which they are determined to have been entitled.

Increased Costs.

If any Lender is entitled to and decides to require payment of any amounts described in Sections 2.9 or 2.10, such Lender shall: (a) give written notice thereof to the Borrower and shall send a copy of such notice to the Agent, and such amounts shall be payable to such Lender in accordance with the terms of Sections 2.9 or 2.10; and (b) simultaneously with the giving of such notice, furnish to the Borrower (and deliver a copy to the Agent) (i) a certificate of an officer of such Lender setting forth the amount to which such Lender is then entitled pursuant to Section 2.9 or 2.10 and (ii) such other information, certifications and documentation as is required to be furnished to the Borrower under the terms of Section 2.9 or 2.10.

Taxes.

Except as specifically set forth in this Agreement, all taxes due and payable on any payments to be made to the Lenders in respect of the Obligations or under this Agreement shall be the Lenders' sole responsibility. All payments payable to the Lenders hereunder or with respect to the Loan Documents shall be made to the Lenders without deduction for any taxes, charges, levies or withholdings except to the extent, if any, that such amounts are required to be withheld by the Agent under the laws, rules and regulations of the United States of America and any other applicable taxing authority. If a Lender is organized or is existing under the laws of another jurisdiction outside the United States, such Lender shall provide to the Agent upon the execution of this Agreement and, from time to time thereafter, completed and signed copies of any form that may be required by the United States Internal Revenue Service in order to certify such Lender's exemptions from United States withholding taxes with respect to payments to be made to such Lender in respect of the Obligations or under this Agreement.

Excess Payments.

If a Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff or otherwise) on account of its interest in the Obligations in excess of its pro rata share in the Obligations, such excess shall be shared among all Lenders in accordance with their respective pro rata shares. However, if all or any portion of such excess payment is thereafter recovered by the Borrower or other party entitled thereto through legal action or otherwise, each Lender shall promptly reimburse the party required to refund such payment to the Borrower or other party entitled thereto in an amount equal to such Lender's pro rata share in the amount of the excess required to be refunded. Within three Business Days after obtaining any such payment, the Lender obtaining the same agrees to notify the Agent of such excess payment.

Return of Payments.

If; for any reason, the Agent makes any payment to a Lender before the Agent has received or applied that corresponding payment on the obligations (it being understood that the Agent is under no obligation to do so), and, thereafter, the Agent does not receive the corresponding payment within five Business Days after the date the Agent made such payment to a Lender (or in the event the Agent by error makes a payment to a Lender to which it is not entitled), such Lender shall, at the Agent's request, promptly return that payment to the Agent (together with interest on that payment at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York for each day from the making of that payment to such Lender until its return to the Agent); provided, however, interest on such payment shall not be due: (a) if such payment was made to a Lender and such Lender had no knowledge that it had received such payment due to error which was the fault of the Agent (except for the period after which such Lender receives notice that it has received such payment), and (b) if such Lender can provide the Agent with evidence, reasonably satisfactory to the Agent, that any such payment received by such Lender was not invested by such Lender. If the Agent has received or applied any payment in respect of the Obligations and has paid a Lender its Pro Rata Share in such payment and, thereafter, the payment or application is rescinded or must otherwise be returned or paid over by the Agent, whether or not required pursuant to any bankruptcy or insolvency law, the sharing of payments clause of any loan agreement or otherwise, such Lender will, at the Agent's request, promptly return its pro rata share in that payment or application to the Agent, together with such Lender's pro rata share in any interest or other amount required to be paid by the Agent with respect to that payment or application.

Default By The Borrower; Acceleration.

The Agent will send to each Lender copies of any notices of a Default or an Event of Default sent by the Agent to the Borrower under the terms of the Loan Documents promptly after sending the same to the Borrower, but in any case within three Business Days after sending the same to the Borrower. In the event of any Default or Event of Default, the Agent shall (as soon as is practicable under the circumstances) consult with the Lenders in an effort to determine a mutually acceptable course of action with respect to the Default or Event of Default. The Agent may deliver to the Lenders a written recommendation of a course of action (the "recommended course of action"), in which case each Lender shall either approve such action in writing or object in writing to such action within thirty (30) days (or such lesser period as specified in the notice from the Agent) following such notice. Failure to deliver a written objection within thirty (30) days (or such lesser period) will be deemed to constitute an approval. The Agent may take the recommended course of action if consented or approved as provided above by the Majority Lenders; provided that no rights shall be released without the consent of all Lenders. In furtherance of the foregoing, and notwithstanding anything herein to the contrary, each Lender hereby appoints and constitutes the Agent its agent with full power and authority to exercise in the name of; and on behalf of each Lender, any and all rights and remedies which each Lender may have with respect to, and to the extent necessary under applicable law for, the enforcement of the Loan Documents, or which the Agent may have as a matter of law. It is understood and agreed that in the event the Agent determines it is necessary to engage counsel for the Lenders from and after the occurrence of an Event of Default, said

counsel shall be selected by the Agent and written notice of the same shall be delivered to the Lenders.

Defaults by Lender.

If for any reason any Lender ("Defaulting Lender") shall fail or refuse to abide by its obligations under this Agreement or under any Loan Document and such failure or refusal shall continue for five (5) Business Days after notice with respect to monetary obligations hereunder or under any Loan Document or thirty (30) days after notice with respect to non-monetary obligations hereunder or under any Loan Document (provided, however, that if such non-monetary default is of a nature that the same cannot be reasonably cured within thirty (30) days and such Lender shall have commenced to cure such non-monetary default within such period and shall thereafter proceed with reasonable due diligence and good faith to cure such non-monetary default, such period shall be extended for such longer period as shall be necessary for such Lender to cure such default with all reasonable diligence, but in no event beyond that date which is one hundred twenty (120) days after such Lender received notice of such default), then, in addition to the rights and remedies that may be available to the Agent at law and in equity, such Defaulting Lender's right to participate in the administration of the Loan Documents, including, without limitation, any rights to consent to or direct any action or inaction of the Agent, pursuant to Section 8.11 above or otherwise, or to be taken into account in the calculation of Majority Lenders, shall be suspended during the pendency of such failure or refusal. If for any reason a Lender fails to make timely payment to the Agent of any amount required to be paid to it hereunder (without giving effect to any notice or cure periods), in addition to other rights and remedies which the Agent may have under this Section 8.19 or otherwise, the Agent shall be entitled (i) to collect interest from such Lender for the period from the date on which the payment was due at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York, for each day during such period, (ii) to withhold or setoff; and to apply to the payment of the defaulted amount and any related interest, any amounts to be paid to such Lender under this Agreement, and (iii) to bring an action or suit against such Lender in a court of competent jurisdiction to recover the defaulted amount and any related interest.

No Partnership or Joint Venture.

Neither the execution of this Agreement nor the purchase of the pro rata share in the Obligations or in the Loan Documents, or any agreement to share in profits and losses arising out of this transaction, is intended to be, nor shall it be construed to be, the formation of a partnership or joint venture between any of the Lenders, or the Agent, and none of the Agent or Lenders shall be liable to any other person or entity for the liability in tort or contract of the Agent or any other Lender arising in connection with the Obligations or any transaction connected herewith or therewith nor shall the Agent have any fiduciary obligations to any Lender. The Agent shall have and may exercise such powers as are specifically delegated to it under this Agreement.

Indemnification.

Agent shall not in any event be required to take any action under the Loan Documents or in relation thereto unless it shall first be indemnified to its satisfaction by the Lender parties against any and all liability and expense that it may incur by reason of taking any

such action. Each Lender agrees to indemnify and hold the Agent harmless (to the extent not promptly paid or reimbursed by the Borrower, ratably according to their respective Commitments), from and against any and all (a) costs, expenses and other amounts incurred by the Agent otherwise payable by the Borrower pursuant to Section 9.1 and (b) Indemnified Liabilities that may be imposed on, incurred by, or asserted against the Agent, except to the extent they are finally adjudged by a court of competent jurisdiction to have directly resulted from the gross negligence or willful misconduct of the Agent. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect to rights or responsibilities under, the Loan Documents, to the extent that the Agent is not promptly reimbursed for such expenses by the Borrower.

MISCELLANEOUS

Expenses.

The Borrower shall pay on demand:

Any and all reasonable attorneys' fees and disbursements (including allocated costs of in-house counsel) and out-of-pocket cost and expenses incurred by the Agent in connection with the development, drafting and negotiation of the Loan Documents, and the arrangement, underwriting, syndication, administration and closing of the transactions contemplated thereby; and

all costs and expenses (including fees and disbursements of in-house and other attorneys, appraisers and consultants) incurred by the Lender Parties in any amendment, workout, restructuring or similar arrangements or, in connection with the administration (including photocopying and overnight mail cost for communication with Lenders), protection, preservation, exercise or enforcement of any of the terms of the Loan Documents or in connection with any collection or bankruptcy proceedings.

Indemnity.

Borrower shall indemnify, defend and hold harmless each Lender Party and the officers, directors, employees, agents, attorneys, affiliates, successors and assigns of each Lender Party (collectively, the "Indemnitees") from and against (a) any and all transfer taxes, documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of the Loan Documents or the making of the Loans, and (b) any and all liabilities, losses, damages, penalties, judgments, claims, costs and expenses of any kind or nature whatsoever (including reasonable attorneys' fees, including allocated costs of in-house counsel, and disbursements in connection with any actual or threatened investigative, administrative or judicial proceeding, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by or asserted against such Indemnitee, in any manner relating to or arising out of the

relationship between any Borrower Party and any Lender Party under any of the Loan Documents, the Loans, the use or intended use of the proceeds of the Loans (the "Indemnified Liabilities"); *provided* that (i) no Indemnitee shall have the right to be indemnified or held harmless hereunder for its own gross negligence or willful misconduct, as determined by a final judgment of a court of competent jurisdiction, and (ii) Indemnified Liabilities shall include amounts attributable to the passive or active negligence of any Lender Party.

Each Indemnitee will promptly notify the Borrower of each event of which it has knowledge that may give rise to a claim under clause (b) of Section 9.2.1, *provided* that the failure to so notify the Borrower shall in no way impair the Borrower's obligations under this Section 9.2 (except to the extent that such failure to so notify has an adverse effect on the Borrower). If any investigative, judicial or administrative proceeding is brought against any Indemnitee indemnified or intended to be indemnified pursuant to this Section 9.2, the Borrower, to the extent and in the manner directed by the Indemnitee, will resist and defend such proceeding with counsel designated by the Borrower (which counsel shall be reasonably satisfactory to the Indemnitee). Each Indemnitee will use its best efforts to cooperate in the defense of any such action, writ, or proceeding. The Borrower shall keep such Indemnitee advised of the status of such defense and consult with such Indemnitee prior to taking any material position with respect thereto. Such Indemnitee shall, however, be entitled to employ counsel separate from counsel for the Borrower and from any other party in such proceeding if such Indemnitee shall reasonably determine that a conflict of interest or other circumstance exists that makes representation by counsel chosen by the Borrower not advisable. The reasonable fees and disbursements of such separate counsel shall be paid by the Borrower. Such Indemnitee shall not agree to the settlement of any such claim without the consent of the Borrower, unless the Borrower shall have been given notice of the commencement of an action and shall have failed to provide the defense thereof as herein provided or an Event of Default shall have occurred.

To the extent that the undertaking to indemnify and hold harmless set forth in Section 9.2.1 may be unenforceable as violative of any Applicable Law or public policy, the Borrower shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities that is permissible under Applicable Law. All Indemnified Liabilities shall be payable on demand.

Waivers; Modifications in Writing.

No amendment of any provision of this Agreement or any other Loan Document (including a waiver thereof or consent relating thereto) shall be effective unless the same shall be in writing and signed by the Agent and the Majority Lenders. Notwithstanding the foregoing,

no amendment that has the effect of (a) reducing the rate or amount, or extending the stated maturity or due date, of any amount payable by the Borrower to any Lender Party under the Loan Documents, (b) increasing the amount, or extending the stated termination or reduction date, of any Lender's Revolving Commitment hereunder or subjecting any Lender Party to any additional obligation to extend credit, (c) altering the rights and obligations of the Borrower to prepay the Loans, (d) releasing any Guarantor under the Guaranty, (e) changing this

Section 9.3 or the definition of the term "Majority Lenders," or (f) forgiving of principal or interest, shall be effective unless the same shall be signed by or on behalf of all of the Lenders;

no amendment that has the effect of (a) increasing the duties or obligations of the Agent, (b) increasing the standard of care or performance required on the part of the Agent, or (c) reducing or eliminating the indemnities or immunities to which the Agent is entitled (including any amendment of this Section 9.3.1.2), shall be effective unless the same shall be signed by or on behalf of the Agent; and

any waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances. Any amendment effected in accordance with this Section 9.3 shall be binding upon each present and future Lender Party and the Borrower.

Cumulative Remedies; Failure or Delay.

The rights and remedies provided for under this Agreement are cumulative and are not exclusive of any rights and remedies that may be available to the Lender Parties under Applicable Law or otherwise. No failure or delay on the part of any Lender Party in the exercise of any power, right or remedy under the Loan Documents shall impair such power, right or remedy or operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or remedy preclude other or further exercise thereof or of any other power, right or remedy.

Notices, Etc.

All notices and other communications under this Agreement shall be in writing and (except for financial statements, other related informational documents and routine communications, which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by prepaid courier, by overnight, registered or certified mail (postage prepaid), or by prepaid telex or telecopy, and shall be deemed given when received by the intended recipient thereof. Unless otherwise specified in a notice sent or delivered in accordance with this Section 9.5, all notices and other communications shall be given to the parties hereto at their respective addresses (or to their respective telex or telecopier numbers) indicated on the signature pages attached hereto.

Successors and Assigns.

This Agreement shall be binding upon and insure to the benefit of the parties hereto and their respective successors and permitted assigns. The Borrower may not assign or transfer any interest hereunder without the prior written consent of each Lender.

Each Lender shall have the right at any time to assign (an "Assignment") all or any portion of such Lender's Revolving Commitment to one or more Lenders or other institutions; *provided* that the following conditions are satisfied: (a) each Assignment shall be of a portion of the Revolving Commitment at least equal to $10,000,000 and, unless otherwise agreed by the Agent, each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this

Agreement and the other Loan Documents; (b) no Assignment (other than an Assignment to a Person that is then a Lender or an Affiliate of a Lender) shall be effective without the consent of the Borrower and the Agent, which consents shall not be unreasonably withheld or delayed; *provided, however,* no consent of the Borrower will be required if a monetary Event of Default has occurred and has not been cured on or prior to the date that is six (6) months after such occurrence, and the Majority Lenders have not, on or prior to the expiration of such six (6) month period, agreed upon a plan submitted by the Borrower (which may be an interim plan) setting forth the Borrower's then intended plan to cure such Event of Default (*provided, further,* that nothing herein shall constitute a waiver by any Lender Party of any rights or remedies of any Lender Party upon the occurrence of a Default or an Event of Default); (c) the parties to the Assignment shall execute and deliver to the Agent, with a copy to the Borrower, an Assignment and Assumption substantially in the form of Exhibit E (an "Assignment and Assumption"); (d) the assignee shall pay to the Agent a processing and recordation fee of $3,000; (e) if the assignee is not organized and existing under the laws of the United States of America or any political subdivision thereof or therein, the assignee shall have furnished to the Borrower the Prescribed Forms; and (f) the Revolving Commitment retained by the Agent shall not be reduced below the amount of the largest Revolving Commitment held by any Lender other than Agent. Each proposed assignee must be an existing Lender or a bank or financial institution which (A) has (or, in the case of a bank which is a subsidiary, such bank's parent has) a rating of its senior unsecured debt obligations of not less than Baa-2 by one of the Rating Agencies and (B) has total assets in excess of Ten Billion Dollars ($10,000,000,000). Unless Borrower gives written notice to the assigning Lender that it objects to the proposed assignment (together with a written explanation of the reasons behind such objection) within ten (10) Business Days following receipt of the assigning Lender's written request for approval of the proposed assignment, Borrower shall be deemed to have approved such assignment. From and after the date on which the conditions in the foregoing clauses and the Assignment and Acceptance have been satisfied, the assignee shall be a Lender" hereunder and, to the extent that rights and obligations hereunder have been assigned to it, shall have the rights and obligations, and the assigning Lender shall, to the extent that rights and obligations hereunder have been assigned by it, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment covering all or the remaining portion of the assigning Lender's rights and obligations under this Agreement, cease to be a party hereto).

Each Lender shall have the right at any time to grant or sell participations (each a "Participation") in all or any portion of such Lender's Revolving Commitment, Loans to one or more Lenders or other institutions, subject to the terms and conditions set forth in this Section 9.6.3. If any Lender sells or grants a Participation, (a) such Lender shall make and receive all payments for the account of its participant, (b) such Lender's obligations under this Agreement shall remain unchanged, (c) such Lender shall continue to be the sole holder of its Notes and other Loan Documents subject to the Participation and shall have the sole right to enforce its rights and remedies under the Loan Documents, (d) the Borrower and the other Lender Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents, and (e) the Participation agreement shall not restrict such Lender's ability to

agree to any amendment of the terms of the Loan Documents, or to exercise or refrain from exercising any powers or rights that such Lender may have under or in respect of the Loan Documents, except that the participant may be granted the right to consent to any (A) reduction of the rate or amount, or any extension of the stated maturity or due date, of any principal, interest or Fees payable by the Borrower and subject to the Participation, (B) increase in the amount or extension of the stated termination or any reduction date of the affected Revolving Commitment or Term Commitment or (C) release of the Guaranty, except to the extent otherwise provided in the Loan Documents. A participant shall have the rights of the Lenders under Sections 2.9, 2.10 and 9.9, subject to the obligations imposed by such Sections; *provided* that amounts payable to any participant shall not exceed the amounts that would have been payable under such Sections to the Lender granting the Participation, had such Participation not been granted, unless the Participation is made with the prior written consent of the Borrower.

Each Lender may at any time assign or pledge any portion of its rights under the Loan Documents to a Federal Reserve Bank. No such assignment or pledge shall be subject to the provisions of Sections 9.6.2 or 9.6.3.

Subject to the provisions of Section 9.7, each Lender shall have the right at any time to furnish one or more potential assignees or participants with any information concerning the Borrower and the Guarantor that has been supplied by the Borrower to any Lender Party. The Borrower shall supply all reasonably requested information and execute and deliver all such instruments and take all such further action (including, in the case of an Assignment, the execution and delivery of replacement Notes) as the Agent may reasonably request in connection with any Assignment or Participation arrangement.

Confidentiality.

Each Lender Party will maintain any confidential information that it may receive from the Borrower or the Guarantor pursuant to this Agreement confidential and shall not disclose such information to third parties without the prior consent of the Borrower, except for disclosure: (a) to legal counsel, accountants and other professional advisors to the Lender Party; (b) to regulatory officials having jurisdiction over the Lender Party; (c) required by Applicable Law or in connection with any legal proceeding; (d) to any other Lender Party; (e) to another Person in connection with a potential Assignment or Participation, *provided* such Person shall have agreed in writing to be subject to this Section 9.7; and (g) of information that has been previously disclosed publicly without breach of this provision. Each Lender Party shall return, upon request by the Borrower made within a reasonable time after termination of this Agreement, any confidential material clearly and conspicuously marked "Confidential and Subject to Return" by the Borrower when furnished to such Lender Party, *provided* that the return of such material is not inconsistent with standard banking practice or, in the judgment of the Lender Party, otherwise disadvantageous to it.

Set Off.

In addition to any rights now or hereafter granted under Applicable Law, upon and after any acceleration of the Maturity Date hereunder, each Lender Party is hereby irrevocably authorized by the Borrower, at any time or from time to time, without notice to the

Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other indebtedness, in each case whether direct or indirect or contingent or matured or unmatured at any time held or owing by such Lender Party to or for the credit or the account of the Borrower, against and on account of the Obligations of the Borrower to such Lender Party under the Loan Documents to which the Borrower is a party, irrespective of whether or not such Lender Party shall have made any demand for payment and although such Obligations may be contingent and unmatured. Each Lender Party agrees to notify the Borrower promptly of any such set-off and the application made by such Lender Party, *provided* that the failure to give such notice shall not affect the validity of such set-off and application.

Changes in Accounting Principles.

If any changes in generally accepted accounting principles from those used in the preparation of the financial statements referred to in this Agreement hereafter result from by the promulgation of rules, regulations, pronouncements, or opinions of or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), or there shall occur any change in the Borrower's fiscal or tax years and, as a result of any such changes, there shall result a change in the method of calculating any of the financial covenants, negative covenants, standards or other terms or conditions found in this Agreement, then the parties hereto agree to enter into negotiations in order to amend such provisions so as to equitably reflect such changes with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such changes as if such changes had not been made.

Survival of Agreements, Representations and Warranties.

All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement, the closing and the extensions of credit hereunder and shall continue until payment and performance of any and all Obligations. Any investigation at any time made by or on behalf of Lender Parties shall not diminish the right of Lender Parties to rely thereon. Without limitation, the agreements and obligations of the Borrower contained in Sections 2.9, 2.10, 9.1 and 9.2, and the obligations of the Lender Parties under Section 8.21 shall survive the payment in full of all other Obligations.

Execution in Counterparts.

This Agreement may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto. Faxed signatures to this Agreement shall be binding for all purposes.

Complete Agreement.

This Agreement, together with the other Loan Documents, is intended by the parties as the final expression of their agreement regarding the subject matter hereof and as a complete and exclusive statement of the terms and conditions of such agreement.

Inspections.

Lender shall have the right to enter upon the Office Park Property at all reasonable times to inspect the improvements thereon to verify information disclosed or required pursuant to this Agreement, provided that Lender shall not unreasonably disturb any tenants occupying such Office Park Property. Any inspection or review of the improvements by Lender is solely to determine whether Borrower is properly discharging its obligations to Lender and may not be relied upon by Borrower or by any third party as a representation or warranty of compliance with this Agreement or any other agreement. Lender owes no duty of care to Borrower or any third party to protect against, or to inform Borrower or any third party of; any negligent, faulty, inadequate or defective design or construction of the improvements as determined by Lender.

Waiver of Right to Trial By Jury.

EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING UNDER THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THE LOAN DOCUMENTS (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO. IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF ANY RIGHT THEY MIGHT OTHERWISE HAVE TO TRIAL BY JURY.

Limitation of Liability.

In the event that any Lender is found to have breached its obligations hereunder, then such Lender shall be severally and not jointly liable for all damages available under Applicable Law for breach of contract. Notwithstanding the foregoing sentence or anything in this Agreement to the contrary, no claim shall be made by the Borrower against any Lender Party or the Affiliates, directors, officers, employees or agents of any Lender Party for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or under any other theory of liability arising out of or related to the transactions contemplated by this Agreement, or any act, omission or event occurring in connection therewith; and the Borrower waives, releases and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

Borrower:

PS BUSINESS PARKS, L.P.,
a California limited partnership

By: PS Business Parks, Inc.,
a California corporation,
General Partner

By: _____
Name: Jack Corrigan
Title: Vice President
Chief Financial Officer

THE BORROWER:

PS BUSINESS PARKS, L.P.
701 Western Avenue
Glendale, California 91201
Attention: Chief Financial Officer
Telephone: (818) 244-8080
Telecopier: (818) 244-9267

Agent:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

WELLS FARGO:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

Lender:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

WELLS FARGO:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

WELLS FARGO'S LIBOR LENDING OFFICE:

Wells Fargo Bank, National Association
2120 East Park Place, Suite 100
El Segundo, California 90245
Attention: Anne Colvin
Telephone: (310) 335-9458
Telecopier: (310) 615-1014

EXHIBIT A-1

AMENDED AND RESTATED NOTE

Irvine, California
Restated Date: October ___, 2002
Original Date: August ___, 1998

$_____

For value received, PS BUSINESS PARKS, L.P., a California limited partnership (the "Borrower"), promises to pay to the order of _____ (the "Lender") the unpaid principal amount of each Base Rate Loan and LIBOR Rate Loan made by the Lender to the Borrower pursuant to the Credit Agreement referred to below on the maturity date provided for in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds at the office designated by Lender.

All Base Rate Loans and LIBOR Rate Loans made by the Lender, the respective types and maturities thereof and all repayments of the principal thereof shall be recorded by the Lender and, if the Lender so elects in connection with any transfer or enforcement hereof, appropriate notations to evidence the foregoing information with respect to each such Base Rate Loan and LIBOR Rate Loan then outstanding may be endorsed by the Lender on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof, provided that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This note is one of the Amended and Restated Revolving Loan Notes referred to in, and is delivered pursuant to and subject to all of the terms of, the Amended and Restated Revolving Credit Agreement dated as of October ____, 2002 among the Borrower, the Lenders listed on the signature pages thereof and Wells Fargo Bank, National Association, as Agent (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the prepayment hereof and the acceleration of the maturity hereof.

PS BUSINESS PARKS, L.P.,
a California limited partnership

By: PS Business Parks, Inc.
a California corporation,
General Partner

By: _____
Name: Jack Corrigan
Title: Vice President, Chief Financial Officer

Note (cont'd)

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Type of Loan	Amount of Principal Repaid	Maturity Date	Notation Made By

EXHIBIT B-1

FORM OF
NOTICE OF BORROWING

TO: Wells Fargo Bank, National Association

_____
_____
_____
_____
Attention:_____

Loan No.:_____
Accounting Unit No.:_____

Reference is hereby made to the Amended and Restated Revolving Credit Agreement dated as of October ____, 2002 (as amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement") among PS Business Parks, L.P., a California limited partnership (the "Borrower"), the Lenders listed on the signature pages hereof and Wells Fargo Bank, National Association, as Agent. Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

Pursuant to Article 2 of the Credit Agreement:

1. The Borrower hereby requests a Loan in the amount of $_____ on _____, _____[1] in the form of a _____[2] [with an interest period of _____][3]; and

2. The Borrower hereby represents and warrants as follows:

(a) All of the representations and warranties contained in the Credit Agreement are true and correct in all material respects on and as of the date hereof as though made on and as of this date (except to the extent that such representations and warranties expressly were made only as of a specific date);

(b) No Default or Event of Default exists or would result from the making of the Loan; and

(c) All other conditions to borrowing set forth in the Credit Agreement are satisfied.

Date: _____, _____

PS BUSINESS PARKS, L.P.,

[1] Must be a Business Day.
[2] Insert form of Loan (Base Rate Loan or Fixed Rate Loan).
[3] Insert Fixed Rate Period in the case of a Fixed Rate Loan.

a California limited partnership

By: PS Business Parks, Inc.
a California corporation,
General Partner

By:_____
Name: Jack Corrigan
Title: Vice President, Chief Financial Officer

EXHIBIT B-3

NOTICE OF RESPONSIBLE OFFICERS

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION
2030 Main Street, Suite 800
Irvine, California 92614
Attention: Office Manager

Loan No.: 3514ZF
Accounting Unit No.: 2955

Reference is hereby made to the Amended and Restated Revolving Credit Agreement, dated as of October _____, 2002 (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement"), by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), Wells Fargo Bank, National Association, as Agent, and the Lenders which are a signatory thereto. Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

The Borrower hereby designates the following individuals as Responsible Officers, authorized to request and take other actions with respect to Loans on behalf of the general partner of Borrower and certifies that the signatures and telephone numbers of those individuals are as follows:

Name	Office	Signature	Phone No.
Ronald L. Havner, Jr.	President		(818) 244-8080
Jack Corrigan	Vice President, Chief Financial Officer		(818) 244-8080
David P. Singelyn	Vice President		(818) 244-8080
John Reyes	Vice President		(818) 244-8080
Joe Miller	Vice President		(818) 244-8080

The Lenders are hereby authorized to rely on this Notice of Responsible Officers unless and until a new Notice of Responsible Officers is received by them, irrespective of whether any of the information set forth herein shall have become inaccurate or false. Additional persons may be designated as Responsible Officers, or the designation of any person may be revoked, at any time, by subsequent Notice of Responsible Officers signed by any person who purports to be a Senior Officer of the general partner of Borrower.

The foregoing supersedes any Notice of Responsible Officers presently in effect under the Credit Agreement.

Date: _____, 20____.

PS BUSINESS PARKS, L.P.,
a California limited partnership

By: PS Business Parks, Inc.
a California corporation,
General Partner

By:_____
Name: Jack Corrigan
Title: Vice President, Chief Financial Officer

EXHIBIT B-5

[FORM OF NOTICE OF CONTINUATION CONVERSION]

NOTICE OF CONTINUATION/CONVERSION

Pursuant to that certain Amended and Restated Revolving Credit Agreement dated as of October ___, 2002 among PS Business Parks, L.P., a California limited partnership (the "Borrower"), the Lenders listed on the signature pages thereof and Wells Fargo Bank, National Association, as Agent (as the same may be amended, supplemented, replaced, received or otherwise modified from time to time, the "Credit Agreement"), this represents Borrower's request to [**Select A or B with appropriate insertions and deletions: [A:** convert $_____ in principal amount of presently outstanding Loans that are [Base/LIBOR] Rate Loans [having an Interest Period that expires on _____, ____] to [Base/LIBOR] Rate Loans on _____, _____. [The initial Interest Period for such LIBOR Rate Loans is requested to be a _____ month period.]] [**B:** continue as LIBOR Rate Loans $_____ in principal amount of presently outstanding Loans having an Interest Period that expires on _____, _____. The Interest Period for such LIBOR Rate Loans commencing on _____, _____ is requested to be a _____ month period]] Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

The undersigned Certifying Officer, to the best of his or her knowledge, and Borrower certify that no Event of Default or Default has occurred and is continuing under the Credit Agreement.

Date: _____, 20____.

PS BUSINESS PARKS, L.P.,
a California limited partnership

By: PS Business Parks, Inc.
a California corporation,
General Partner

By:_____
Name: Jack Corrigan
Title: Vice President, Chief Financial Officer

EXHIBIT C-1

Loan No. 3514ZF

FORM OF
SECRETARY'S CERTIFICATE

TO: **WELLS FARGO BANK,**
NATIONAL ASSOCIATION
2030 Main Street, Suite 800
Irvine, California 92614
Attention: Office Manager

Reference is hereby made to the Amended and Restated Revolving Credit Agreement, dated as of October __, 2002 (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement"), by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), Wells Fargo Bank, National Association, as Agent, and the Lenders which are a signatory thereto. Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

The undersigned, _____, hereby certifies to the Lender as of the date hereof that:

1. He is the duly elected, qualified and acting Secretary of PS Business Parks, Inc., a California Corporation (the "Company"), and that, as such, he has access to the corporate records and is familiar with the matters herein certified, and he is authorized to execute and deliver this Certificate in the name and on behalf of the Company, in its own capacity and in its capacity as the general partner of the Borrower.

2. The Company is the sole general partner of the Borrower. In such capacity, the Company has the power and authority for and on behalf and in the name of the Borrower to execute and deliver the Credit Agreement, the Notes and the other Loan Documents to which the Borrower is or will be a party and to execute and deliver the Guaranty in its capacity as Guarantor thereunder.

3. Attached as Appendix A is a true, correct and complete copy of the Bylaws of the Company, including all amendments, as in effect on the date hereof.

4. Attached as Appendix B are true, correct and complete copies of resolutions duly adopted by the Board of Directors of the Company with respect to the Credit Agreement and the other Loan Documents to which the Company is or will be a party. Such resolutions have not been modified or rescinded and remain in full force and effect as of the date hereof.

5. The following are the names of; the offices held by, and the genuine signatures of; the officers of the Company who are authorized to sign the Loan Documents to which the Company is or will be a party for and on behalf of the Company:

Name	Office	Signature

6. There have been no changes to the charter of the Company since the date of certification thereof by the Secretary of State, as it is being delivered to the Lender on the date hereof

The undersigned has executed this Secretary's Certificate as of the ___th day of _____, 2002.

_____
Name: _____
Secretary

The undersigned hereby certifies that he is a duly elected, qualified and acting _____ of the Company, and further certifies that _____ is the duly appointed, qualified and acting Secretary of the Company and that the signature appearing above is his or her genuine signature.

Date: _____, 2002 _____

Name: _____

EXHIBIT C-2

Loan No. 3514ZF

FORM OF
GENERAL PARTNER'S CERTIFICATE

TO: **WELLS FARGO BANK,**
NATIONAL ASSOCIATION
2030 Main Street, Suite 800
Irvine, California 92614

Reference is hereby made to the Amended and Restated Revolving Credit Agreement, dated as of October ___, 2002 (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement"), by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), Wells Fargo Bank, National Association, as Agent, and the Lenders which are a signatory thereto. Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

The undersigned, PS Business Parks, Inc., a California corporation, the sole general partner of the Borrower, hereby certifies to the Lender that the undersigned has the responsibility for the records of the Borrower and further certifies to the Lender, after due inquiry as of the date hereof; that:

1. The following are the names of; the offices held by, and the genuine signatures of; each person who, acting on behalf of the general partner of the Borrower at the respective times of the signing and delivery of the Credit Agreement and each other Loan Document to which the Borrower is or will be a party, was duly authorized by the general partner of the Borrower to execute and deliver the Credit Agreement and each such Loan Document for and on behalf of the Borrower and to bind the Borrower:

Name	Office	Signature

2. Attached hereto as Appendix A is a true, correct and complete copy of the Partnership Agreement of the Borrower, as amended, supplemented or otherwise modified through and including the date hereof; and as in effect on the date hereof

3. Attached hereto as Appendix B are true, correct and complete copies of resolutions duly adopted by the general partner of the Borrower approving and authorizing the execution, delivery and performance by the Borrower of the Credit Agreement and the other Loan Documents executed by the Borrower.

The undersigned has executed this General Partner's Certificate as of the ___th day of October, 2002.

PS Business Parks, Inc.
a California corporation

By:_____
Name: Jack Corrigan
Title: Vice President,
Chief Financial Officer

EXHIBIT C-3

Loan No. 3514ZF

FORM OF
OFFICERS' CERTIFICATE

TO: **WELLS FARGO BANK,**
NATIONAL ASSOCIATION
2030 Main Street, Suite 800
Irvine, California 92614

Reference is hereby made to the Amended and Restated Revolving Credit Agreement, dated as of October _, 2002 (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time, the "Credit Agreement"), by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), Wells Fargo Bank, National Association, as Agent, and the Lenders which are a signatory thereto. Terms with initial capital letters used but not defined herein have the meanings assigned to them in the Credit Agreement.

The undersigned, David Singelyn, the Vice President, and Jack Corrigan, the Vice President and Chief Financial Officer, of PS Business Parks, Inc., a California corporation, the sole general partner of the Borrower, do hereby certify, in their capacity as the general partner of the Borrower, as of the date hereof:

1. We have carefully reviewed the terms of the Credit Agreement and the other Loan Documents to which the Borrower Parties are or will be a party and have made, or caused to be made, such review of the Borrower Parties and their respective business affairs as we have considered necessary for the purposes of preparing this Certificate.

2. We have carefully prepared and reviewed the contents of this Certificate and have conferred with counsel for the Borrower Parties for the purpose of discussing the meaning of any provisions hereof that we desired to have clarified.

3. All representations and warranties of the Borrower Parties contained in the Credit Agreement and the other Loan Documents to which the Borrower Parties are parties are true and correct in all material respects as of the date hereof as if made on such date.

4. No Default or Event of Default exists on and as of the date hereof or would result from the making of the Loans on the Amended and Restated Closing Date.

5. Attached as Appendix A are calculations by which we have determined that the Borrower is in compliance with the financial covenants contained in the Loan Documents.

6. All of the conditions precedent set forth in Sections 3.1 and 3.2 of the Credit Agreement have been satisfied.

The undersigned has executed this Officers' Certificate as of the ___th day of October, 2002.

_____

Name: Jack Corrigan
Title: Vice President, Chief Financial Officer

EXHIBIT D

*****[FORM OF OPINION OF BORROWER'S COUNSEL] *****

October ___, 2002

Wells Fargo Bank, National Association,
and its successors and assigns
2030 Main Street
Suite 800
Irvine, California 92614

Re: PS Business Parks, L.P. and PS Business Parks, Inc. -- Amended and Restated Revolving Credit Agreement dated as of _____, 2002

Ladies and Gentlemen:

I have acted as counsel to PS Business Parks, L.P., a California limited partnership (the "Borrower") and PS Business Parks, Inc., a California corporation (the "Guarantor") in connection with the preparation of

(i) the Amended and Restated Revolving Credit Agreement dated as of even date herewith (the "Credit Agreement") by and among the Borrower, Wells Fargo Bank, National Association, as Agent, and the Lenders named therein;

(ii) Amended and Restated Revolving Note dated as of even date herewith made by the Borrower, payable to the order of Wells Fargo Bank, National Association; and

(iii) the Amended and Restated General Continuing Guaranty dated as of even date herewith (the "Guaranty") executed by the Guarantor in favor of the Lenders.

Each capitalized term used and not defined herein shall have the meaning assigned to that term in the Credit Agreement. The Revolving Note shall be referred to herein as a "Note." The Credit Agreement, the Note and the Guaranty are collectively referred to as the "Loan Documents."

I have assumed with your permission that:

(a) Except in the case of documents signed on behalf of the Borrower and the Guarantor, the signatures on all documents examined by us are genuine, all individuals executing such documents had all requisite legal capacity and competency and were duly authorized, the documents submitted to us as originals are authentic and the documents submitted to us as certified or reproduction copies conform to the originals;

(b) The Lenders have all requisite power and authority to execute, deliver and perform their obligations under each of the Loan Documents to which they are a party, the execution and delivery of such Loan Documents by the Lenders and performance of such obligations by the Lenders have been duly authorized by all necessary action and such Loan Documents are legal, valid and binding obligations of the Lenders, enforceable against it in accordance with their respective terms;

(c) Each Lender is (i) a national bank, (ii) a California bank, (iii) a foreign (other state) bank, or (iv) a foreign (other nation) bank that has assets at least equal to $100 million, is licensed to maintain an office in California, is licensed or otherwise authorized by another state to maintain an agency or branch office in that state, or which maintains a federal agency or federal branch in any state.

In rendering this opinion, I have made such inquiries and examined, among other things, originals or copies, certified or otherwise identified to my satisfaction, of such records, agreements, certificates, instruments and other documents as I have considered necessary or appropriate for purposes of this opinion. As to certain factual matters, I have relied upon certificates of officers of the Borrower and the Guarantor or certificates obtained from public officials.

Based on the foregoing and in reliance thereon, and subject to the assumptions, exceptions, qualifications and limitations set forth herein, I am of the opinion that:

1. The Borrower has been duly formed and is a validly existing limited partnership in good standing under the laws of the State of California, is duly qualified as a foreign limited partnership under the laws of every other jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect, and has all requisite power and authority to conduct its business, to own and lease its properties and to execute, deliver and perform its obligations under the Credit Agreement and the Note. Guarantor is the sole general partner of Borrower;

2. Guarantor has been duly incorporated and is a validly existing corporation in good standing under the laws of the State of California, is duly qualified as a foreign corporation under the laws of every other jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect, and has all requisite power and authority to conduct its business, to own and lease its properties and to execute, deliver and perform its obligations under the Guaranty;

3. The execution and delivery of the Credit Agreement and the Note by the Borrower and the performance of its obligations thereunder have been duly authorized by all necessary action of the Borrower;

4. The execution and delivery of the Guaranty by Guarantor and the performance of its obligations thereunder have been duly authorized by all necessary corporate action of Guarantor;

5. The Credit Agreement and the Note have each been duly executed and delivered by the Borrower;

6. The Guaranty has been duly executed and delivered by Guarantor;

7. The Credit Agreement and the Note each constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

8. The Guaranty constitutes a legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms.

9. The execution and delivery of the Credit Agreement and the Note by the Borrower and the performance of its obligations thereunder do not result in a breach or violation of or Regulations G, U, T and X of the Board of Governors of the Federal Reserve System. The Borrower is not engaged principally, or as one of its principal activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System). Assuming that not more than twenty-five percent (25%) of the value of the Borrower's or, collectively, the Borrower's and its subsidiaries', assets are represented by "margin stock" (as such term is defined in Regulation G, U, T or X, as the case may be, of the Board of Governors Federal Reserve System) and assuming that the proceeds of the Loans are used in compliance with the provisions of the Agreement, no part of the proceeds of the Loans would be used by the Borrower to purchase or carry any such "margin stock" or to extend credit to others for the purpose of purchasing or carrying any such "margin stock", except in accordance with the provisions of Regulations G, U, T and X of the Board of Governors of the Federal Reserve System. In rendering the foregoing opinion, I have assumed that any determinations of value are made in accordance with Regulation G, U, T or X, as the case may be, of the Board of Governors of the Federal Reserve System.

10. The Borrower is not an "investment company" or a company "controlled by an investment company" within the meaning of the Investment Company Act of 1940, as amended.

11. The execution, delivery and performance by the Borrower of the Credit Agreement and the Note do not and will not (A) violate or conflict with the partnership agreement of the Borrower, or any order, judgment or decree of any court or other agency of government binding on the Borrower, (B) conflict in any respect with, result in a breach of or constitute a default under any material contractual obligation of the Borrower known to me, or (C) result in or require the creation or imposition of any Lien upon any of the Borrower's assets.

The execution and delivery by the Borrower of the Credit Agreement and the Note on the Amended and Restated Closing Date, and the incurrence and repayment of the Loans by the Borrower pursuant to the Loan Documents and the consummation of the transactions which are contemplated by the Credit Agreement to be consummated by the Company on the Amended and Restated Closing Date do not violate any law or regulation of the State of California, the United States of America or any other state applicable to the Borrower or require any authorization, consent, waiver or approval of any federal, California or other governmental authority or regulatory body.

12. The execution, delivery and performance by Guarantor of the Guaranty do not and will not (A) violate or conflict with the charter or bylaws of Guarantor, or any order, judgment or decree of any court or other agency of government binding on Guarantor, (B) conflict in any respect with, result in a breach of or constitute a default under any material contractual obligation of Guarantor known to me, or (C) result in or require the creation or imposition of any Lien upon any of Guarantor's assets. The execution and delivery by Guarantor of the Guaranty on the Amended and Restated Closing Date and the incurrence and repayment of the Loans by Guarantor pursuant to the Guaranty and the consummation of the transactions which are contemplated by the Credit Agreement to be consummated by the Guarantor on the Amended and Restated Closing Date do not violate any law or regulation of the State of California, the United States of America or any other state applicable to the Guarantor or require any authorization, consent, waiver or approval of any federal, California or other governmental authority or regulatory body.

13. There is no action, suit or proceeding pending or threatened against the Borrower or any Guarantor of any nature or in which an injunction or order has been entered preventing or adversely affecting the making of the Loans or the consummation of the transactions contemplated by the Credit Agreement.

The foregoing opinions are subject to the following exceptions, qualifications and limitations:

A. I render no opinion herein as to matters involving the laws of any jurisdiction other than the State of California and the United States of America. This opinion is limited to the effect of the present state of the laws of the State of California and the United States of America and the facts as they presently exist. I assume no obligation to revise or supplement this opinion in the event of future changes in such laws or the interpretations thereof or such facts.

B. My opinions set forth in paragraphs 7 and 8 are subject to (i) the effect of any bankruptcy, insolvency, reorganization, moratorium, arrangement or similar laws affecting the enforcement of creditors' rights generally (including, without limitation, the effect of statutory or other laws regarding fraudulent transfers or preferential transfers or distributions by corporations to stockholders) and (ii) general principles of equity regardless of whether enforceability is considered in a proceeding in equity or at law.

C. Without limitation in respect of clause B(ii) above, I express no opinion (i) as to the ability to obtain specific performance, injunctive relief or other equitable relief (whether

sought in a proceeding at law or in equity) as a remedy for noncompliance with any Loan Documents, (ii) regarding the rights or remedies available to any party for violations or breaches of any provisions which are immaterial or for violations or breaches of any provisions the enforcement of which a court determines would be unreasonable under the then existing circumstances or would violate the implied covenant of good faith and fair dealing, (iii) regarding the rights or remedies available to any party for material violations or breaches which are the proximate result of actions taken by any party other than the party against whom enforcement is sought which actions such other party is not entitled to take pursuant to the relevant agreement or instrument or applicable laws or which otherwise violate applicable laws, and (iv) regarding the rights or remedies available to any party insofar as such party may take discretionary action which is arbitrary, unreasonable or capricious, or is not taken in good faith or in a commercially reasonable manner, whether or not such action is permitted under the Loan Documents.

D. I express no opinion with respect to the legality, validity, binding nature or enforceability of any provision of the Loan Documents to the effect that rights or remedies are not exclusive, that every right or remedy is cumulative and may be exercised in addition to any other right or remedy, that the election of some particular remedy does not preclude recourse to one or more others or that failure to exercise or delay in exercising rights or remedies will not operate as a waiver of any such right or remedy.

E. I express no opinion as to the legality, validity, binding nature or enforceability (i) of provisions in the Loan Documents indemnifying or exculpating a party, to the extent such provisions may be held unenforceable as contrary to public policy, (ii) of any provision of any Loan Document insofar as it provides for the payment or reimbursement of costs and expenses or for claims, losses or liabilities in excess of a reasonable amount determined by any court or other tribunal or (iii) regarding the Lenders' ability to collect attorneys' fees and costs in an action involving the Loan Documents if the Lenders are not the prevailing parties in such action (I call your attention that, under California law, where a contract permits one party thereto to recover attorneys' fees, the prevailing party in any action to enforce any provision of the contract shall be entitled to recover its reasonable attorneys' fees).

F. I express no opinion with respect to the legality, validity, binding nature or enforceability of (i) any waiver of rights existing, or duties owed, that is broadly or vaguely stated or does not describe the right or duty purportedly waived with reasonable specificity, (ii) any waivers or consents (whether or not characterized as a waiver or consent in the Loan Documents) relating to the rights of the Borrower or Guarantor or duties owing to it existing as a matter of law, including, without limitation, waivers of the benefits of statutory or constitutional provisions, to the extent such waivers or consents may be found by a California court to be against public policy or which are ineffective pursuant to California statutes and judicial decisions, (iii) any waivers of any statute of limitations to the extent such waivers are in excess of four years beyond the statutory period, (iv) provisions in the Loan Documents imposing penalties or forfeitures, (v) covenants (other than covenants relating to the payment of principal, interest, indemnities and expenses) to the extent they are construed to be independent requirements as distinguished from conditions to the declaration or occurrence of a default or an

event of default, or (vi) any rights of setoff (other than such as are provided by Section 3054 of the Civil Code of the State of California, as interpreted by applicable judicial decisions).

G. I express no opinion as to any provision of the Loan Documents requiring written amendments or waivers of such documents insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon by the parties or that the doctrine of promissory estoppel might not apply.

This opinion is rendered in connection with the Loan Documents and may not be relied upon by any person other than the Lenders, their respective successors and assigns, including Participants, and each of their respective counsel (each, a "Recipient") or by a Recipient in any other context, provided that a Recipient may provide this opinion (i) to bank examiners and other regulatory authorities should they so request or in connection with their normal examinations, (ii) to the independent auditors and attorneys of a Recipient, (iii) pursuant to order or legal process of any court or governmental agency, (iv) in connection with any legal action to which a Recipient is a party arising out of the transactions contemplated by the Loan Documents, or (v) the proposed assignee of, or participant in the interest of, a Recipient under the Loan Documents.

Very truly yours,

David Goldberg
Vice President and Counsel

EXHIBIT E

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption Agreement ("Transfer Supplement") is made as of _____, 2002 between _____ (the "Assignor") and having an address at _____ (the "Purchasing Lender").

W I T N E S S E T H:

WHEREAS, Assignor has made loans to PS Business Parks, L.P., a California limited partnership (the "Borrower"), pursuant to the Amended and Restated Revolving Credit Agreement, dated as of October ___, 2002 (as the same may be amended, supplemented, replaced, renewed or otherwise modified from time to time through the date hereof, the "Credit Agreement"), among the Borrower, the Lenders listed on the signature pages thereof and Wells Fargo Bank, National Association, as Arranger and Agent. All capitalized terms used and not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement;

WHEREAS, the Purchasing Lender desires to purchase and assume from the Assignor, and the Assignor desires to sell and assign to the Purchasing Lender, certain rights, title, interest and obligations under the Credit Agreement.

NOW, THEREFORE, IT IS AGREED:

1. In consideration of the amount set forth in the receipt (the "Receipt") given by Assignor to Purchasing Lender of even date herewith, and transferred by wire to Assignor, the Assignor hereby assigns and sells, without recourse, representation or warranty except as specifically set forth herein, to the Purchasing Lender, and the Purchasing Lender hereby purchases and assumes from the Assignor, a ___% interest (the "Purchased Interest") of the Loans constituting a portion of the Assignor's rights and obligations under the Credit Agreement as of the Effective Date (as defined below) including, without limitation, such percentage interest of the Assignor in any Loans owing to the Assignor, and Note held by the Assignor, any Loan Commitment of the Assignor and any other interest of the Assignor under any of the Loan Documents.

2. The Assignor (i) represents and warrants that as of the date hereof the aggregate outstanding principal amount of its share of the Loans owing to it (without giving effect to assignments thereof which have not yet become effective) is $_____; (ii) represents and warrants that it is the legal and beneficial owner of the interests being assigned by it hereunder and that such interests are free and clear of any adverse claim; (iii) represents and warrants that it has not received any notice of Default or Event of Default from the Borrower; (iv) represents and warrants that it has full power and authority to execute and deliver, and perform under, this Transfer Supplement, and all necessary corporate and/or partnership action has been taken to authorize, and all approvals and consents have been obtained for, the execution, delivery and performance thereof; (v) represents and warrants that this Transfer Supplement constitutes its legal, valid and binding obligation enforceable in accordance with its

terms; (vi) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations (or the truthfulness or accuracy thereof) made in or in connection with the Credit Agreement, or the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, or the other Loan Documents or any other instrument or document furnished pursuant thereto; and, (vii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or the other Loan Documents or any other instrument or document furnished pursuant thereto. Except as specifically set forth in this Paragraph 2, this assignment shall be without recourse to Assignor.

3. The Purchasing Lender (i) confirms that it has received a copy of the Credit Agreement, and the other Loan Documents, together with such financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Transfer Supplement and to become a party to the Credit Agreement, and has not relied on any statements made by Assignor or Gibson, Dunn & Crutcher LLP; (ii) agrees that it will, independently and without reliance upon any of the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of the Borrower and will make its own credit analysis, appraisals and decisions in taking or not taking action under the Credit Agreement, and the other Loan Documents; (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement, and the other Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are incidental thereto; (iv) agrees that it will be bound by and perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender; (v) specifies as its address for notices and lending office, the office set forth beneath its name on the signature page hereof; (vi) it has full power and authority to execute and deliver, and perform under, this Transfer Supplement, and all necessary corporate and/or partnership action has been taken to authorize, and all approvals and consents have been obtained for, the execution, delivery and performance thereof; (vii) this Transfer Supplement constitutes its legal, valid and binding obligation enforceable in accordance with its terms; and (viii) the interest being assigned hereunder is being acquired by it for its own account, for investment purposes only and not with a view to the public distribution thereof and without any present intention of its resale in either case that would be in violation of applicable securities laws.

4. This Transfer Supplement shall be effective on the date (the "Effective Date") on which all of the following have occurred (i) it shall have been executed and delivered by the parties hereto, (ii) copies hereof shall have been delivered to the Agent and the Borrower, (iii) Purchasing Lender shall have received an original Note and (iv) the Purchasing Lender shall have paid to the Assignor the agreed purchase price as set forth in the Receipt.

5. On and after the Effective Date, (i) the Purchasing Lender shall be a party to the Credit Agreement and, to the extent provided in this Transfer Supplement, have the rights and obligations of a Lender thereunder and be entitled to the benefits and rights of the Lenders

thereunder and (ii) the Assignor shall, to the extent provided in this Transfer Supplement as to the Purchased Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

6. From and after the Effective Date, the Assignor shall cause the Agent to make all payments under the Credit Agreement, and the Notes in respect of the Purchased Interest assigned hereby (including, without limitation, all payments of principal, fees and interest with respect thereto and any amounts accrued but not paid prior to such date) to the Purchasing Lender.

7. This Transfer Supplement may be executed in any number of counterparts which, when taken together, shall be deemed to constitute one and the same instrument.

8. Assignor hereby represents and warrants to Purchasing Lender that it has made all payments demanded to date by Agent in connection with the Assignor's pro rata share of the obligation to reimburse the Agent for its expenses and made all Loans required. In the event Agent, shall demand reimbursement for fees and expenses from Purchasing Lender for any period prior to the Effective Date, Assignor hereby agrees to promptly pay Agent, such sums directly, subject, however, to Paragraph 12 hereof.

9. Assignor will, at the cost of Assignor, and without expense to Purchasing Lender, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, assignments, notices of assignments, transfers and assurances as Purchasing Lender shall, from time to time, reasonably require, for the better assuring conveying, assigning, transferring and confirming unto Purchasing Lender the property and rights hereby given, granted, bargained, sold, aliened, enfeoffed, conveyed, confirmed, assigned and/or intended now or hereafter so to be, on which Assignor may be or may hereafter become bound to convey or assign to Purchasing Lender, or for carrying out the intention or facilitating the performance of the terms of this Agreement or for filing, registering or recording this Agreement.

10. The parties agree that no broker or finder was instrumental in bringing about this transaction. Each party shall indemnify, defend the other and hold the other free and harmless from and against any damages, costs or expenses (including, but not limited to, reasonable attorneys, fees and disbursements) suffered by such party arising from claims by any broker or finder that such broker or finder has dealt with said party in connection with this transaction.

11. Subject to the provisions of Paragraph 12 hereof; if; with respect to the Purchased Interest only, Assignor shall on or after the Effective Date receive (a) any cash, note, securities, property, obligations or other consideration in respect of or relating to the Loan or the Loan Documents or issued in substitution or replacement of the Loan or the Loan Documents, (b) any cash or non-cash consideration in any form whatsoever distributed, paid or issued in any bankruptcy proceeding in connection with the Loan or the Loan Documents or (c) any other distribution (whether by means of repayment, redemption, realization of security or otherwise), Assignor shall accept the same as Purchasing Lender's agent and hold the same in trust on behalf of and for the benefit of Purchasing Lender, and shall deliver the same forthwith to Purchasing Lender in the same form received, with the endorsement (without recourse) of Assignor when

necessary or appropriate. If the Assignor shall fail to deliver any funds received by it within the same Business Day of receipt, unless such funds are received by Assignor after 4:00 p.m., Pacific Standard Time, then the following business day after receipt, said funds shall accrue interest at the federal funds interest rate and in addition to promptly remitting said amount, Assignor shall remit such interest from the date received to the date such amount is remitted to the Purchasing Lender.

12. Assignor and Purchasing Lender each hereby agree to indemnify and hold harmless the other, each of its directors and each of its officers in connection with any claim or cause of action based on any matter or claim based on the acts of either while acting as a Lender under the Credit Agreement. Promptly after receipt by the indemnified party under this Section of notice of the commencement of any action, such indemnified party shall notify the indemnifying party in writing of the commencement thereof. If any such action is brought against any indemnified party and that party notifies the indemnifying party of the commencement thereof; the indemnifying party shall be entitled to participate therein, and to the extent that it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof; with counsel satisfactory to such indemnified party, and after receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof; the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof. In no event shall the indemnified party settle or consent to a settlement of such cause of action or claim without the consent of the indemnifying party.

13. THIS TRANSFER SUPPLEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Wire Transfer Instructions:

_____
_____
_____
_____

By:_____
Name: _____
Title: _____

By:_____
Name: _____
Title: _____

Receipt and Consent acknowledged this
_____ day of _____, 2002:

WELLS FARGO BANK, N.A.,
as Agent

By:_____
Name: _____
Title: _____

EXHIBIT F

FORM OF COMPLIANCE CERTIFICATE

[To be Supplied]

EXHIBIT G

AMENDED AND RESTATED GENERAL CONTINUING REPAYMENT GUARANTY

This AMENDED AND RESTATED GENERAL CONTINUING GUARANTY ("Guaranty"), dated as of October ___, 2002 is made by PS Business Parks, Inc., a California corporation ("Guarantor"), in favor of the Lenders (as defined below) and Wells Fargo Bank, National Association, as Agent, with reference to the following facts:

A. Pursuant to that certain Amended and Restated Revolving Credit Agreement (the "Credit Agreement") of even date herewith, entered into by and among PS Business Parks, L.P., a California limited partnership (the "Borrower"), Wells Fargo Bank, National Association, as Agent, and the Lenders named therein (together with any Person becoming a Lender by Assignment, each, a "Lender," and collectively, the "Lenders"), the Lenders have agreed to extend to the Borrower certain loans (the "Loans") aggregating One Hundred Million Dollars ($100,000,000.00).

B. As a condition to the willingness of the Lenders to provide the Loans, Guarantor is required to enter into this Guaranty and to guarantee the Guarantied Obligations as hereinafter provided.

C. Guarantor expects to realize direct and indirect benefits as a result of the availability of the Loans, and in consideration of such benefits is willing to execute this Guaranty.

AGREEMENT

NOW, THEREFORE, in order to induce the Lenders to make the Loans available to the Borrower, and for other good and valuable consideration, the receipt and adequacy of which hereby is acknowledged, Guarantor hereby represents, warrants, covenants, agrees and guarantees as follows:

1. Definitions. This Guaranty is the Amended and Restated General Continuing Repayment Guaranty referred to in the Credit Agreement and is one of the Loan Documents. Terms defined in the Credit Agreement and not otherwise defined herein shall have the meanings given those terms in the Credit Agreement. The following terms shall have the meanings respectively set forth after each:

"Event of Default" means:

(a) any Event of Default under the Credit Agreement;

(b) any failure by Guarantor to perform any agreement contained in this Guaranty, subject to any applicable notice and cure period contained herein (or, if no such period is contained herein, within thirty (30) days after notice from the Agent (or, if

such notice is stayed or prohibited under Applicable Law, then without notice or cure period of any kind whatsoever)); or

(c) Guarantor purports to terminate or revoke this Guaranty.

"Guarantied Obligations" means any and all present and future monetary Obligations of any type or nature of the Borrower to the Lenders or their successors or assigns arising under or related to the Loan Documents (including all amendments, modifications, supplements, renewals or extensions of any of them, whether such amendments, modifications, supplements, renewals or extensions are evidenced by new or additional instruments, documents or agreements or change the rate of interest on any such obligation or the security therefor, or otherwise) whether now due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, voluntary or involuntary, including interest that accrues after the commencement of any bankruptcy or insolvency proceeding by or against the Borrower and whether or not allowed or allowable as a claim in any such insolvency proceedings. If the amount outstanding under the Guarantied Obligations is determined by a court of competent jurisdiction, that determination shall be conclusive and binding on Guarantor, regardless of whether Guarantor was a party to the proceeding in which the determination was made or not.

"Material Adverse Effect" means an effect resulting from any circumstance or event or series of circumstances or events, of whatever nature (but excluding general economic conditions), which does or could reasonably be expected to, materially and adversely (i) effect the business, operations, properties, assets or financial condition of the Guarantor and its Subsidiaries taken as a whole, or (ii) impair the ability of the Guarantor and its Subsidiaries, taken as a whole, to perform their respective obligations under this Guaranty.

"Subsidiary" means, as of any date of determination and with respect to any Person, any corporation or partnership (whether or not, in either case, characterized as such or as a "joint venture"), whether now existing or hereafter organized or acquired: (a) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors or other governing body (other than securities having such power only by reason of the happening of a contingency) are at the time beneficially owned by such Person and/or one or more Subsidiaries of such Person, or (b) in the case of a partnership, of which such Person or a Subsidiary of such Person is a general partner or of which a majority of the partnership or other ownership interests are at the time beneficially owned by such Person and/or one or more of its Subsidiaries; provided however, that for the purposes of this Guaranty only, the Borrower shall be not be deemed to be a Subsidiary of Guarantor.

2. Guaranty of Guarantied Obligations. For valuable consideration, Guarantor hereby unconditionally guarantees and promises to pay, within thirty (30) days following written demand by the Agent (or, if demand is or would be stayed under Applicable Law, then within thirty (30) days after such Guarantied Obligations first became due and payable), the Guarantied

Obligations and each and every one of them when the same become due (whether at maturity, by acceleration or otherwise).

3. Nature of Guaranty. This Guaranty is irrevocable and continuing in nature and relates to any Guarantied Obligations now existing or hereafter arising. This Guaranty is a guaranty of prompt and punctual payment and performance and is not merely a guaranty of collection. The liability of the Guarantor hereunder is independent of the obligations of the Borrower and a separate action or separate actions may be brought and prosecuted against the Guarantor whether or not any action is brought or prosecuted against the Borrower or whether the Borrower is joined in any such action or actions. The liability of the Guarantor hereunder is independent of and not in consideration of or contingent upon the liability of any other person under any similar instrument and the release of; or cancellation by, any signer of a similar instrument shall not act to release or otherwise affect the liability of the Guarantor hereunder. This Guaranty shall be construed as a continuing, absolute and unconditional guaranty of payment (and not merely of collection) without regard to:

(a) the legality, validity or enforceability of any of the Amended and Restated Revolving Loan Notes or the Credit Agreement, any of the indebtedness evidenced thereby, or any other guaranty of such indebtedness;

(b) any defense (other than payment), set-off or counterclaim that may at any time be available to the Borrower or any other guarantor against, and any right of setoff at any time held by, the Lenders; or

(c) any other circumstance whatsoever (with or without notice to or knowledge of the Guarantor or any other guarantor), whether or not similar to any of the foregoing, that constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower or any other guarantor, in bankruptcy or in any other instance.

4. Relationship to Other Agreements. Nothing herein shall in any way modify or limit the effect of terms or conditions set forth in any other document, instrument or agreement executed by Guarantor or in connection with the Guarantied Obligations, but each and every term and condition hereof shall be in addition thereto.

5. Subordination of Indebtedness. Guarantor agrees that:

(a) Any rights of Guarantor, whether now existing or later arising, to receive payment on account of any indebtedness (including interest) owed to Guarantor by the Borrower, shall at all times be subordinate as to lien and time of payment and in all other respects to the full and prior indefeasible repayment to Lenders of the Loans. Guarantor shall not be entitled to enforce or receive payment of any sums hereby subordinated until the Loans have been paid and performed in full.

(b) Upon the occurrence of an Event of Default, if the Lenders so request, any such indebtedness of the Borrower now or hereafter owed to Guarantor shall be collected, enforced and received by Guarantor as trustee for the Lenders on account of the

Guarantied Obligations, but without reducing or affecting in any manner the obligations of Guarantor under the other provisions of this Guaranty.

(c) Upon the occurrence of an Event of Default, should Guarantor fail to collect or enforce any such indebtedness of the Borrower now or hereafter owed to Guarantor and pay the proceeds thereof to the Lenders, the Lenders as Guarantor's attorney-in-fact may do such acts and sign such documents in Guarantor's name as the Lenders consider necessary or desirable to effect such collection, enforcement and/or payment.

6. Statute of Limitations and Other Laws. Until the Guarantied Obligations shall have been irrevocably paid and performed in full, all of the rights, privileges, powers and remedies granted to the Lenders hereunder shall continue to exist and may be exercised by the Lenders at any time and from time to time, irrespective of the fact that any of the Guarantied Obligations may have become barred by any statute of limitations. Guarantor expressly waives the benefit of any and all statutes of limitation, and any and all laws providing for exemption of property from execution or for valuation and appraisal upon foreclosure, and any and all rights and benefits, if any, arising under Section *359.5* of the California Code of Civil Procedure.

7. Rights Upon Event of Default.

Upon the occurrence of any Event of Default, the Agent may enforce this Guaranty independently of any other remedy or security the Agent or the Lenders at any time may have or hold in connection with the Guarantied Obligations, and it shall not be necessary for the Agent or the Lenders to marshal assets in favor of the Borrower, Guarantor or any other Person or to proceed upon or against and/or exhaust any security or remedy before proceeding to enforce this Guaranty. The Agent may file a separate action or actions against Guarantor, whether action is brought or prosecuted with respect to any security or against any other Person, or whether any other Person is joined in any such action or actions. Guarantor agrees that the Agent, the Lenders and the Borrower may deal with each other in connection with the Guarantied Obligations or otherwise, or alter any contracts or agreements now or hereafter existing between them, in any manner whatsoever, all without in any way altering or affecting the security of this Guaranty. The Agent's and Lenders' rights hereunder shall be reinstated and revived, and the enforceability of this Guaranty shall continue, with respect to any amount at any time paid on account of the Guarantied Obligations which thereafter shall be required to be restored or returned by any Lender upon the bankruptcy, insolvency or reorganization of the Borrower or Guarantor, or for any other reason, all as though such amount had not been paid. The rights of the Agent and Lenders created or granted herein and the enforceability of this Guaranty at all times shall remain effective to guarantee the full amount of all the Guarantied Obligations even though the Guarantied Obligations, including any part thereof or any other security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against the Borrower and whether or not the Borrower shall have any personal liability with respect thereto. Guarantor expressly waives any and all defenses now or hereafter arising or asserted by reason of (a) any disability or other defense of the Borrower with respect to the Guarantied Obligations, (b) the unenforceability or invalidity of any security or guaranty for the Guarantied Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Guarantied Obligations, (c) the cessation for any cause

whatsoever of the liability, in whole or in part, of the Borrower (other than by reason of the full payment and performance of all Guarantied Obligations), (d) any failure of the Agent or the Lenders to marshal assets in favor of the Borrower or any other person, (e) any failure of the Agent or the Lenders to give notice of sale or other disposition of any collateral (now or hereafter securing the Guarantied Obligations) to the Borrower or any other Person or any defect in any notice that may be given in connection with any sale or disposition of collateral, (f) any failure of the Agent or the Lenders to comply with Applicable Law in connection with the sale or other disposition of any collateral or other security for any Guarantied Obligation, including any failure of the Agent or the Lenders to conduct a commercially reasonable sale or other disposition of any collateral or other security for any Guarantied Obligation, (g) any act or omission of the Agent or the Lenders, or others that directly or indirectly results in or aids the discharge or release of the Borrower or the Guarantied Obligations or any security or guaranty therefor by operation of Law or otherwise (other than by reason of the full payment and performance of all Guarantied Obligations), (h) any Applicable Law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation, including, without limitation, all rights and benefits under Section 2809 of the California Civil Code purporting to reduce a guarantor's obligation in proportion to the obligation of the principal, (i) any failure of the Agent or the Lenders to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person, (j) the election by the Agent or the Lenders in any bankruptcy proceeding of any Person, of the application or non-application of Section 1111 (b)(2) of the United States Bankruptcy Code, (k) any extension of credit or the grant of any lien under Section 364 of the United States Bankruptcy Code, (1) any use of cash collateral under Section 363 of the United States Bankruptcy Code, (in) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person, (n) the avoidance of any lien in favor of the Agent or the Lenders for any reason, or (o) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of; or bar or stay against collecting, all or any of the Guarantied Obligations (or any interest thereon) in or as a result of any such proceedings, (p) without limiting the generality of the foregoing or any other provision hereof; all rights and benefits which might otherwise be available to Guarantor under California Civil Code Sections 2787 through *2855,* inclusive. Guarantor expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guarantied Obligations, and all notices of acceptance of this Guaranty or of the existence, creation or incurring of new, or additional Guarantied Obligations. Guarantor further waives Section 2815 of the California Civil Code which provides that a continuing guaranty may be revoked at any time by the guarantor in respect to future transactions and, by virtue of this waiver, Guarantor acknowledges that Guarantor does not have any right to revoke this Guaranty as to future advances or additional loans under the Loan Documents and, thus, Guarantor may essentially have no control over its ultimate responsibility for Borrower's indebtedness guaranteed hereunder. Finally, Guarantor agrees that all advances under the Loans are to be construed as components of but a single transaction.

8. Waivers and Consents. Guarantor acknowledges that the obligations of Guarantor undertaken herein involve the guaranty of obligations of a Person other than Guarantor and, in full recognition of that fact, Guarantor consents and agrees that the Lenders (or their agents, in either case as permitted or required by the Credit Agreement) may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness hereof: (a) supplement, modify, amend, extend, renew, accelerate or otherwise change the time for payment or the terms of the Guarantied Obligations or any part thereof; including any increase or decrease of the rate(s) of interest thereon; (b) supplement, modify, amend or waive, or enter into or give any agreement, approval or consent with respect to, the Guarantied Obligations or any part thereof; or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder; (c) accept new or additional instruments, documents or agreements in exchange for or relative to any of the Guarantied Obligations or any part thereof; (d) accept partial payments on the Guarantied Obligations and apply any and all payments or recoveries from the Borrower or any guarantor to such of the indebtedness as the Lenders may elect in their sole discretion; (e) receive and hold additional security or guaranties for the Guarantied Obligations or any part thereof; (f) release, reconvey, terminate, waive, abandon, fail to perfect, subordinate, exchange, substitute, transfer and/or enforce any security or guaranties, and apply any security and direct the order or manner of sale thereof as the Lenders in their sole and absolute discretion may determine; (g) release any other Person from any personal liability with respect to the Guarantied Obligations or any part thereof; (h) settle, release on terms satisfactory to the Lenders, as the case may be, or by operation of Applicable Law or otherwise liquidate or enforce any Guarantied Obligations and any security or guaranty in any manner, consent to the transfer of any security and bid and purchase at any sale (other than by reason of the full payment and performance of all Guarantied Obligations); (i) consent to the merger, change or any other restructuring or termination of the corporate existence of the Borrower, and correspondingly restructure the Guarantied Obligations, and any such merger, change, restructuring or termination shall not affect the liability of Guarantor or the continuing effectiveness hereof; or the enforceability hereof with respect to all or any part of the Guarantied Obligations; and/or extend other credit to the Borrower, and may take and hold security for the credit so extended, all without affecting Guarantor's liability under this Guaranty; (j) otherwise deal with Borrower, any other guarantor as the Lender may elect in its sole discretion. Guarantor expressly agrees that until the Guarantied Obligations are paid and performed in full and each and every term, covenant and condition of this Guaranty is fully performed, Guarantor shall not be released by or because of:

(a) Any act or event which might otherwise discharge, reduce, limit or modify Guarantor's obligations under this Guaranty;

(b) Any waiver, extension, modification, forbearance, delay or other act or omission of any Lender, or any Lender's failure to proceed promptly or otherwise as against the Borrower, Guarantor or any security;

(c) Any action, omission or circumstance which might increase the likelihood that Guarantor may be called upon to perform under this Guaranty or which might affect the rights or remedies of Guarantor as against the Borrower; or

(d) Any dealings occurring at any time between the Borrower and any Lender, whether relating to the Loans or otherwise.

Guarantor hereby expressly waives and surrenders any defense to its liability under this Guaranty based upon any of the foregoing acts, omissions, agreements, waivers or matters. It is the purpose and intent of this Guaranty that the obligations of Guarantor under it shall be absolute and unconditional under any and all circumstances.

9. Condition of the Borrower. Guarantor represents and warrants to the Lenders that Guarantor has established adequate means of obtaining from the Borrower, on a continuing basis, financial and other information pertaining to the businesses, operations and condition (financial and otherwise) of the Borrower and its properties, and Guarantor now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of the Borrower and its properties. Guarantor assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of Borrower which diligent inquiry would reveal and hereby expressly waives and relinquishes any duty on the part of any Lender (should any such duty exist) to disclose to Guarantor any matter, fact or thing related to the businesses, operations or condition (financial or otherwise) of the Borrower or its properties, whether now known or hereafter known by any Lender during the life of this Guaranty. With respect to any of the Guarantied Obligations, the Lenders need not inquire into the powers of the Borrower, or the officers, partners or employees acting or purporting to act on its behalf; and all Guarantied Obligations made or created in good faith reliance upon the professed exercise of such powers shall be secured hereby.

10. Waiver of Rights of Subrogation. Notwithstanding anything to the contrary elsewhere contained herein, Guarantor hereby expressly waives with respect to the Borrower and its successors and assigns and any other Person, (a) any and all rights at Law (including without limitation the United States Bankruptcy Code or any successor or similar statute), in equity or by contract to subrogation, reimbursement, exoneration, contribution, indemnity or setoff; and any and all rights to share in any collateral, (b) any and all rights to enforce any remedy that the Lenders, or any of them, may have against the Borrower, and (c) any other rights that could accrue to a surety against a principal, to a guarantor against a maker or obligor, to an accommodation party against the party accommodated, or to a holder or transferee against a maker, and which Guarantor may have or hereafter acquire against the Borrower, any constituent entities, or any other Person in connection with or as a result of Guarantor's execution, delivery and/or performance of this Guaranty. In accordance with California Civil Code Section 2856, Guarantor waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guarantied obligation, has destroyed the guarantor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the Code of Civil Procedure or otherwise. Guarantor hereby acknowledges and agrees that the foregoing waivers are intended to benefit the Borrower and the Lenders and shall not limit or otherwise affect Guarantor's liability hereunder or the enforceability hereof. GUARANTOR EXPRESSLY AFFIRMS THE FOREGOING WAIVERS BY INITIALING HERE:

_____
Guarantor

11. Bankruptcy No Discharge. Notwithstanding anything to the contrary herein contained, this Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof; of any or all of the Guarantied Obligations is rescinded or must otherwise be restored or returned by Lender upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made. Notwithstanding any modification, discharge or extension of the Guarantied Obligations or any amendment, modification, stay or cure of Lender's rights which may occur in any bankruptcy or reorganization case or proceeding concerning the Borrower whether permanent or temporary, and whether assented to by Lenders, the Guarantor hereby agrees that it shall be obligated hereunder to pay the indebtedness and discharge its other obligations in accordance with the terms of the indebtedness and the terms of this Guaranty in effect on the date hereof. Guarantor understands and acknowledges that by virtue of this Guaranty, Guarantor has specifically assumed any and all risks of a bankruptcy or reorganization case or proceeding with respect to the Borrower. As an example and not in any way of limitation, a subsequent modification of the indebtedness in any reorganization case concerning the Borrower shall not affect the obligation of Guarantor to pay the Indebtedness in accordance with its original terms.

12. Understandings With Respect to Waivers and Consents. Guarantor warrants and agrees that each of the waivers and consents set forth herein are made after consultation with legal counsel and with full knowledge of their significance and consequences with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which Guarantor otherwise may have against the Borrower, the Lenders or others, or against any collateral. If any of the waivers or consents herein are determined to be contrary to any applicable law or public policy, such waivers and consents shall be effective to the maximum extent permitted by law.

13. Representations and Warranties. Guarantor hereby represents and warrants to the Lenders, with knowledge that the Lenders will rely thereon in entering into the Loan Documents with the Borrower, that:

(a) Existence and Qualification: Power; Compliance With Laws. Guarantor is a corporation duly incorporated, validly existing and in good standing under the laws of California, is duly qualified to do business as, and is in good standing as, a foreign corporation in each jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, and has all requisite power and authority to conduct its business and to own and lease its properties. All outstanding shares of capital stock of Guarantor are duly authorized, validly issued, fully paid, nonassessable, and issued in compliance with all applicable state and federal securities and other Applicable Laws.

(b) Execution, Delivery and Performance of Guaranty Documents.

(i) Guarantor has all requisite power and authority to execute and deliver, and to perform all of its obligations under, this Guaranty.

(ii) The execution and delivery by Guarantor of; and the performance by Guarantor of each of its obligations under, this Guaranty has been duly authorized by all necessary action and do not and will not:

(1) require any consent or approval not heretofore obtained of any director, stockholder, security holder or creditor of Guarantor which has not been obtained;

(2) violate any provision of the charter, certificate, articles of incorporation or bylaws of Guarantor;

(3) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or leased or hereafter acquired by Guarantor;

(4) violate any provision of any law (including without limitation Regulations U or X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Guarantor; or

(5) result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other material agreement, lease or instrument to which Guarantor is a party or by which-Guarantor or any property of Guarantor is bound or affected.

(iii) Guarantor is not in default under any applicable law, order, writ, judgment, injunction, decree, determination, award, indenture, agreement, lease or instrument in any respect that could materially impair the legal and financial ability of Guarantor to perform its obligations under this Guaranty.

(iv)No authorization, consent, approval, order, license, permit or exemption from, or filing, registration or qualification with, any governmental authority is or will be required under applicable law to authorize or permit the execution and delivery by Guarantor of; and the performance by Guarantor of all of its obligations under, this Guaranty.

(v) This Guaranty when executed and delivered, will constitute the legal, valid and binding obligations of Guarantor enforceable against Guarantor in accordance with its terms.

(c) Compliance with Applicable Laws and Other Requirements. Guarantor is in compliance in all material respects with all applicable laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, permits and exemptions from, and has accomplished all filings, registrations or qualifications with, any governmental authority that is necessary for the transaction of its business.

(d) Subsidiaries.

(i) Exhibit "A" attached hereto and incorporated herein by this reference correctly sets forth the names and jurisdictions of incorporation or formation of all Subsidiaries of Guarantor in existence as of the date hereof. Except as described in Exhibit "A" or except as Guarantor may hereafter disclose to the Agent in writing with respect to stock or equity investments acquired after the date of this Guaranty, Guarantor does not own any capital stock of; or equity interest in any Person other than the Subsidiaries and the Borrower. All outstanding shares of capital stock or equity interest of each Subsidiary and the Borrower (i) are owned of record and beneficially by Guarantor and/or by Borrower, free and clear of all Liens, and (ii) are duly authorized, validly issued, fully paid, nonassessable, and issued in compliance with all applicable state and federal securities and other laws.

(ii) Each Subsidiary is a corporation duly incorporated or partnership duly formed, validly existing and, in the case of corporations and limited partnerships, in good standing under the laws of its respective jurisdiction of incorporation or formation, is duly qualified to do business, and, in the case of corporations and limited partnerships, is in good standing as a foreign corporation or foreign limited partnership, as applicable, in each jurisdiction in which the conduct of its business or the ownership or leasing of its properties makes such qualification necessary, and has all requisite power and authority to conduct its business and to own and lease its properties.

(iii) Each Subsidiary is in compliance in all material respects with all applicable laws and other requirements applicable to its business and has obtained all authorizations, consents, approvals, orders, licenses, permits and exemptions from, and has accomplished all filings, registrations or qualifications with, any Governmental Agency that is necessary for the transaction of its business.

(e) Financial Statements. Guarantor has furnished to the Lenders a copy of the following: (i) consolidated balance sheets of Guarantor, dated as of December 31, 2000 and December 31, 2001, and the related consolidated statements of Guarantor's financial position for the Fiscal Year then ended, reported on by Ernst & Young LLP, a copy of which has been delivered to each of the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of Guarantor and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such Fiscal Year. The unaudited consolidated balance sheet of Guarantor as at March 31, 2002 and June 30, 2002 and related statements of income, retained earnings and cash flow for the period then ended, certified by the chief accounting officer or chief financial officer of Guarantor, a copy of which has been delivered to Agent, were prepared in accordance with GAAP consistently applied (except to the extent noted therein) and fairly present the consolidated financial position of Guarantor, Borrower and the Consolidated Subsidiaries as of such date and the results of operations and cash flow for the period covered thereby, subject to normal year-end adjustments. Neither Borrower, guarantor nor any

consolidated Subsidiary had on such date any material Contingent Obligations, liabilities for taxes or long-term leases, unusual forward or long-term commitments or unrealized losses from any unfavorable commitments which are not reflected in the foregoing statements or in the notes thereto and which are material.

(f) No Material Adverse Change. Since June 30, 2002, (i) except as may have been disclosed in writing to the Lenders, nothing has occurred having a Material Adverse Effect, and (ii) except as previously disclosed to the Lenders, neither the Borrower nor Guarantor has incurred any material indebtedness or guaranty on or before the Amended and Restated Closing Date.

(g) Tax Liability. Guarantor and each Subsidiary have filed all tax returns or filed an extension (federal, state and local), if any, required to be filed by them and have paid all taxes shown thereon to be due and all property taxes due, including interest and penalties, if any. Guarantor and each Subsidiary have established and are maintaining adequate reserves for tax liabilities, if any, sufficient to comply with GAAP.

(h) Litigation. Except as previously disclosed to the Lenders, there are no actions, suits or proceedings pending or, to the best knowledge of Guarantor, threatened against or affecting Guarantor or any Subsidiary or any property of Guarantor or any Subsidiary, before any governmental authority which, if determined adversely to Guarantor or the Subsidiary, could have a Material Adverse Effect.

(i) Pension Benefit Plan. Guarantor is not a plan sponsor of, or contributing employer to, any Plan or Multiemployer Plan.

(j) Regulations U and X: Investment Company Act. Guarantor and each Subsidiary is not engaged principally, or as one of its important activities in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the meanings of Regulation U of the Board of Governors of the Federal Reserve System. None of Guarantor or any Subsidiary is or is required to be registered under the Investment Company Act of 1940.

(k) Review of Loan Documents. Guarantor has reviewed the Loan Documents and approves and understands the terms thereof

(l) Derivation of Financial Benefit. Guarantor hereby acknowledges and warrants that it has derived or expects to derive a financial advantage from the extension of credit pursuant to the Credit Agreement and from each and every renewal, extension or other relinquishment of legal rights made or granted or to be made or granted by the Lenders to the Borrower pursuant to the Credit Agreement or otherwise.

14. Covenants of Guarantor. Until satisfaction of all of the obligations under, or guaranteed pursuant to, this Guaranty, Guarantor covenants as follows:

(a) Payment of Taxes and Other Potential Liens. Guarantor shall pay, and shall cause each of its Subsidiaries to pay and discharge all Taxes imposed upon it or any of its

properties or in respect of any of its franchises, business, income or property before any penalty shall be incurred with respect to such Taxes, *provided, however,* that unless and until foreclosure, distraint, levy, sale or similar proceedings shall have commenced, Guarantor and such Subsidiary need not pay or discharge any such Tax so long as the validity or amount thereof is being contested in good faith and by appropriate proceedings and so long as any reserves or other appropriate provisions as may be required by GAAP shall have been made therefor. Guarantor shall pay and discharge promptly, and cause each subsidiary to pay and discharge promptly, all taxes, assessments and governmental charges or levies imposed upon any right or interest of any Lender, Assignee Lender or Participant under or with respect to this Guaranty; provided, however that neither Guarantor nor any Subsidiary shall not be required to pay or cause to be paid any income or gross receipts tax generally applicable to Lenders and imposed on any Lender, Assignee Lender or Participant Lender.

(b) Preservation of Existence. Guarantor shall and shall cause each of its Subsidiaries to at all times preserve and keep in full force and effect its corporate existence and all material rights and franchises. Guarantor shall remain a listed corporation on the American Stock Exchange or any other national stock exchange. Guarantor shall not make any change to its articles of incorporation or bylaws, without the prior written consent of the Agent, which consent shall not be unreasonably withheld, conditioned or delayed, except to increase the percentage of shares that may be owned by any person and to reflect issuances of securities. Guarantor shall remain at all times a real estate investment trust in compliance with all requirements imposed upon real estate investment trusts under the Internal Revenue Code and all regulations thereunder.

(c) Maintenance of Properties. Guarantor shall, and shall cause each of its Subsidiaries to, maintain or cause to be maintained in good repair, working order and condition (ordinary wear and tear excepted), all Office Park Properties and other assets useful or necessary to its business, and from time to time Guarantor and each Subsidiary shall make or cause to be made all appropriate repairs, renewals and replacements thereto where the failure to so maintain will have a Material Adverse Effect; provided, however that the failure to maintain a particular item of property (other than improved Office Park Properties) that is not of significant value to such Person or which is obsolete shall not constitute a violation of this covenant.

(d) Maintenance of Insurance. Guarantor shall, and shall cause each Subsidiary to, maintain with financially sound and reputable insurance companies, rated A-VH by A.M. Best or higher or otherwise satisfactory to the Agent, in its reasonable discretion, insurance in at least such amounts, of such character and against at least such risks as is usually maintained by companies of established repute engaged in the same or a similar business in the same general area. Such insurance shall include fire and extended coverage, public liability, property damage, workers' compensation and flood insurance (if the Agent determines that such insurance is required under applicable law).

(e) Compliance with Applicable Law. Guarantor shall comply, and cause each Subsidiary to comply in all material respects, with the requirements of all applicable law.

(f) Compliance With Credit Agreement. Guarantor shall comply with all limitations and obligations of the Guarantor set forth in the Credit Agreement and shall cause each of its Subsidiaries to comply with all of their respective limitations and obligations set forth in the Credit Agreement.

(g) Mergers. Guarantor shall not merge, consolidate or amalgamate, or permit any Subsidiary to merge, consolidate, or amalgamate, with or into any Person unless permitted by the Credit Agreement.

(h) Books and Records. Guarantor shall maintain and shall cause each Subsidiary to maintain adequate books, records and accounts as may be required or necessary to permit the preparation of consolidated financial statements in accordance with sound business practices and GAAP. Guarantor shall permit such Persons as the Agent may designate, after reasonable advance notice, during normal business hours, and as often as may be requested, to (a) visit and inspect any of the Office Park Properties of the Guarantor and any Subsidiary or the offices or any Guarantor and any Subsidiary, (b) inspect and copy any books and records of Guarantor and any Subsidiary, and (c) discuss with its officers and employees and its independent accountants, its business, assets, liabilities, prospects, results of operation or financial condition; *provided, however,* that (i) representatives of Guarantor and any Subsidiary may be present during all such inspections and discussions, (ii) each person designated by the Agent shall take reasonable steps to minimize disruption to the operations of the applicable Person caused by such inspection; and (iii) nothing contained herein shall require Guarantor or any Subsidiary to permit any Lender to examine or otherwise have access to any matter that is protected from disclosure by the attorney-client privilege or the doctrine of attorney work product.

(i) Reporting Requirements. Guarantor shall cause to be delivered to the Agent, in form and detail satisfactory to the Agent:

(i) As soon as practicable and in any event within fifteen (15) days after the occurrence of a Default under this Guaranty becomes known to an executive officer of Guarantor, a written statement of an officer of Guarantor setting forth the nature of the Default and the action that Guarantor proposes to take with respect thereto;

(ii) As soon as available and in any event within five *(5)* Domestic Business Days after the same is required to be filed with the Securities and Exchange Commission (but in no event later than 95 days after the end of each Fiscal Year of Guarantor) an audited consolidated balance sheet of Borrower, Guarantor and their Consolidated Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of Borrower's and Guarantor's operations and consolidated statements of Borrower's and Guarantor's cash flow for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on in a manner acceptable to the Securities and Exchange Commission on Borrower's and Guarantor's Form 10K and reported on

by Ernst Young LLP or other independent public accountants of nationally recognized standing;

(iii) As soon as available and in any event within five (5) Domestic Business Days after the same is required to be filed with the Securities and Exchange Commission (but in no event later than sixty (60) days after the end of each of the first three Fiscal Quarters of the Borrower and Guarantor), (i) a consolidated balance sheet of the Borrower, Guarantor and their Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of Borrower's and Guarantor's operations and consolidated statements of Borrower's and Guarantor's cash flow for such Fiscal Quarter and for the portion of the Borrower's or Guarantor's Fiscal Year ended at the end of such Fiscal Quarter, all reported on in the form provided to the Securities and Exchange Commission on Borrower's and Guarantor's Form 10Q, and (ii) and such other information reasonably requested by the Agent or any Lender;

(iv) Within five (5) Domestic Business Days after delivery of Guarantor's annual report to its shareholders, copies of the same;

(v) Promptly upon an executive officer of Guarantor learning thereof; notice in writing of any action, suit or proceeding before any governmental agency which, if determined adversely to Guarantor, could have a Material Adverse Effect.

(vi) Promptly and in any event within thirty (30) days after any ERISA Affiliate (a) gives or is required to give notice to the PBGC of any Reportable Event with respect to any Plan, or knows that the plan administrator of any Plan has given or is required to give notice of any such Reportable Event, a copy of the notice of such Reportable Event given or required to be given to the PBGC; (b) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (c) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of; or appoint a trustee to administer any Plan, a copy of such notice; (d) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (e) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (f) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; (g) fails to make any payment or contribution relating to any Plan or Multiemployer Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, (h) ceases operations at a facility in the circumstances described in Section 4062(e) of ERISA, a written notice specifying the nature thereof, and when known, any action taken or threatened by the Internal Revenue Service, Department of Labor, or the PBGC with respect thereto, or (i) experiences a

Prohibited Transaction in connection with any Plan or Multiemployer Plan (or any trust created thereunder), a written notice specifying the nature thereof, and when known, any action taken or threatened by the Internal Revenue Service, Department of Labor, or the PBGC with respect thereto; and in the case of clauses (a) through (i) above, which event could result in a Material Adverse Effect, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable ERISA Affiliate is required or proposes to take;

(vii) Within five (5) Domestic Business Days after submission by Guarantor of any other report or filing to the SEC, copies of the same; and

(x) As promptly as reasonably possible following request therefor, such other information about the business, assets, operation or condition, financial or otherwise, of Guarantor or any Subsidiary, as the Agent from time to time reasonably may request.

15. Costs and Expenses. The Guarantor shall pay within thirty (30) days after written notice from Agent all costs and expenses (including reasonable fees and disbursements of in-house and other attorneys, appraisers and consultants) incurred by the Agent in any amendment, workout, restructuring or similar arrangements or, after a Default, in connection with the protection, preservation, exercise or enforcement of any of the terms of the Loan Documents or in connection with any collection or bankruptcy proceeding. All advances, charges, costs and expenses, including reasonable attorneys' fees (including fees of both independent counsel and counsel who are employees of the Agent) and disbursements, incurred or paid by the Agent in exercising any right, privilege, power or remedy conferred by this Guaranty, or in the enforcement or attempted enforcement thereof; shall be subject hereto and shall become a part of the Guarantied Obligations and shall be paid to the Agent by Guarantor, immediately upon demand, together with interest thereon at the rate(s) provided for under the Credit Agreement.

16. Choice of Law. This Guaranty shall be governed by, and construed and enforced in accordance with, the laws of the State of California except to the extent preempted by federal law (without giving effect to the principles thereof relating to conflicts of law). Guarantor and all Persons in any manner obligated to the Lenders under this Guaranty consent to the jurisdiction and venue of any federal or state court located in Orange County, California in connection with any suit arising out of the enforcement of any obligations hereunder and further consent to service of process by any means authorized by California or federal law. Guarantor agrees that a summons and complaint or equivalent documents commencing an action or proceeding in any court shall be validly and properly served and shall confer personal jurisdiction over Guarantor if served on Guarantor at the address set forth in Section 24.

Provided that any action or proceeding in connection with this Guaranty shall have been commenced in the jurisdiction and at the venue as aforesaid, and service of process shall have been made on Guarantor, Guarantor waives any objection which Guarantor may now or hereafter have to venue or jurisdiction for any such action or proceeding and waives any right to seek removal of any action or proceeding commenced in accordance herewith.

17. Time of Essence. Time is of the essence hereof.

18. Binding Agreement: Successors and Assigns: Amendment. This Guaranty and the terms, covenants and conditions hereof shall be binding upon and inure to the benefit of Guarantor, the Agent, each Lender and their respective successors and assigns, except that Guarantor shall not be permitted to transfer, convey or assign this Guaranty or any right or obligation hereunder without the prior written consent of all of the Lenders (and any attempt to do so shall be void). Subject to the provisions contained in Section 9.6 of the Credit Agreement, any Lender may assign its interest hereunder in whole or in part and may in connection with any assignment or participation permitted pursuant to Section 9.6 of the Credit Agreement, disclose any and all information in its possession concerning Guarantor, this Guaranty and any security for this Guaranty to any actual or prospective purchaser, participant or assignee. Subject to the provisions contained in Section 9.5 of the Credit Agreement, neither this Guaranty nor any provision hereof may be amended, modified, waived, discharged or terminated except by an instrument in writing duly signed by the Required Lenders.

19. Remedies Cumulative: No Waiver. The rights, powers and remedies of the Agent and Lenders hereunder are cumulative and not exclusive of any other right, power or remedy which the Agent or the Lenders would otherwise have. No failure on the part of the Agent or the Lenders to pursue any remedy hereunder, under the Credit Agreement or under any other Loan Document shall constitute a waiver on the part of the Agent or the Lenders of their rights to pursue such remedy on the basis of the same or a subsequent breach. No extension, modification, amendment or renewal of the Credit Agreement, any Note, any security instrument securing the Loans, or any other Loan Document shall serve to waive in whole or in part the provisions hereof or discharge Guarantor from any obligations hereof; except to the extent expressly provided by the Lenders in writing. Guarantor's obligations under this Guaranty are in addition to its obligations under any other existing or future guaranties, each of which shall remain in full force and effect until it is expressly modified or released in a writing signed by the Lenders. Guarantor's obligations under this Guaranty are independent of those of the Borrower on the Guarantied Obligations. The Agent may bring a separate action, or commence a separate reference or arbitration proceeding against Guarantor without first proceeding against the Borrower, any other person or any security that Lender may hold, and without pursuing any other remedy. The Agent's and Lender's rights under this Guaranty shall not be exhausted by any action by the Agent or the Lenders until the Guarantied Obligations have been paid and performed in full. The death or legal incapacity of any Guarantor shall not terminate the obligations of such Guarantor or any other Guarantor under this Guaranty, including its obligations with regard to future advances under the Loan Documents.

20. Interpretation. The word "Borrower" as used herein shall include both the named Borrower and any other Person at any time assuming or otherwise becoming primarily liable for all or any part of the obligations of the named Borrower under the Notes and the Credit Agreement. When the context and construction so require, all words used in the singular herein shall be deemed to have been used in the plural and vice versa.

21. Severability. If any provision of this Guaranty shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that portion shall be deemed

severed from this Guaranty and the remaining parts shall remain in full force as though the invalid, illegal or unenforceable portion had never been part of this Guaranty.

22. Headings. All headings appearing in this Guaranty are for convenience only and shall be disregarded in construing this Guaranty.

23. Entire Agreement. Except as provided in any written agreement now or at any time hereunder in force among the Agent, Lenders and/or Guarantor, the agreements and/or instruments referred to herein and this Guaranty shall constitute the entire agreement of Guarantor with the Agent and Lenders with respect to the obligations created hereunder, and no representation, understanding, promise or condition concerning the subject matter hereof shall be binding upon any Lender unless expressed herein or therein.

24. Notices. Unless otherwise specified, all notices or other communications required or permitted to be given pursuant to the provisions of this Guaranty shall be considered as properly given and shall be effective as provided in the Credit Agreement, if given at the following addresses (or, in the case of Guarantor's address, at such other address as Guarantor shall notify the Lenders of pursuant to such notice provisions):

"Guarantor"

PS Business Parks, Inc.
701 Western Avenue|
Glendale, California 91201
Attention: Chief Financial Officer
Telephone: (818) 244-8080
Telecopier: (818) 244-9267

"Lenders"

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attn: Office Manager

"Agent"

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attn: Office Manager

26. Provisional Remedies, Self-Help. Nothing herein shall limit the right of any party to exercise self-help remedies such as setoff or to obtain provisional or ancillary remedies, including an order of attachment, a temporary restraining order, preliminary injunction or other interim relief from any court of competent jurisdiction if such is necessary to preserve that

Party's rights before, during or after the pendency of any arbitration, reference or bankruptcy proceeding.

27. Failure or Indulgence Not Waiver. No failure or delay on the part of the Agent or the Lenders in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any power, right or privilege preclude any other or further exercise of any such power, right or privilege. All powers, rights and privileges hereunder are cumulative to, and not exclusive of; any powers, rights or privileges otherwise available.

28. Rights to Setoff. In addition to any rights now or hereafter granted under applicable law, upon and after any acceleration of the Maturity Date under the Credit Agreement, each Lender is hereby irrevocably authorized by the Guarantor, at any time or from time to time, without notice to the Guarantor or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other indebtedness, in each case whether direct or indirect or contingent or matured or unmatured at any time held or owing by such Lender to or for the credit or the account of the Guarantor, against and on account of the Obligations of the Guarantor to such Lender under this Guaranty, irrespective of whether or not such Lender shall have made any demand for payment and although such Obligations may be contingent and unmatured. Each Lender agrees to notify the Guarantor promptly of any such set-off and the application made by such Lender, *provided* that the failure to give such notice shall not affect the validity of such set-off and application.

29. Limitation of Liability. No claim shall be made by the Guarantor against the Lenders or any of their Affiliates, directors, officers, employees or agents for any consequential or punitive damages in respect of any claim for breach of contract or under any other theory of liability arising out of or related to the transactions contemplated by this Guaranty, or any act, omission or event occurring in connection therewith; and the Guarantor waives, releases and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

30. WAIVER OF RIGHT TO TRIAL BY JURY.

EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING UNDER THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THE LOAN DOCUMENTS (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO. IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY

PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF ANY RIGHT THEY MIGHT OTHERWISE HAVE TO TRIAL BY JURY.

IN WITNESS WHEREOF, Guarantor, as a continuing guarantor, has executed this Guaranty as of the date first written above.

"Guarantor"

PS Business Parks, Inc.,
a California corporation

By:_____
Name: _____
Title: _____

SCHEDULE 1.1A

Agent's Account

Wells Fargo Bank, National Association
2120 E. Park Place, Suite 100
El Segundo, California 90245

ABA: 12100024-8
BNF-WFB: Disbursement Operation Center/AC 2934507203
OBI: PS Business Parks, L.P.
Loan No. 3514ZF
Attn: Eva Lopez

SCHEDULE 1.1C

Unencumbered Assets

The following pages provide the details of the unencumbered assets. There are 87 unencumbered assets owned by the Borrower Parties as follows:

PS Business Parks, L.P. (entity 03000)	52 properties
TPLP Office Park Properties (entity 04000)	23 properties
Monroe Parkway LLC (entity 05200)	1 property
AOPP Acquisition Corp. Two (entity 05500)	4 properties
PS Business Parks, Inc. (entity 12200)	7 properties
Total	87 properties

SCHEDULE 3.1.1

PS Business Parks, L.P.

CLOSING DOCUMENTS

PRINCIPAL LOAN DOCUMENTS. The following, in each case duly executed by all parties, as appropriate:				
9.15.1 Amended and Restated Revolving Credit Agreement				
Exhibits				
Exhibit A-1	--	Form of Amended and Restated Revolving Note		
Exhibit B-1	--	Form of Notice of Borrowing		
Exhibit B-3	--	Notice of Responsible Officer		
Exhibit B-S	--	Notice of Continuation/Conversion		
Exhibit C-1	--	Form of Secretary's Certificate		
Exhibit C-2	--	Form of General Partner's Certificate		
Exhibit C-3	--	Form of Officers' Certificate		
Exhibit D	--	Form of Opinion of Borrowers and Guarantor's Counsel		
Exhibit E	--	Form of Assignment and Assumption Agreement		
Exhibit F	--	Form of Compliance Certificate		
Exhibit G	--	Form of Guaranty		
Schedules				
Schedule 1.1 A	--	Agent's Account		
Schedule 1.1 C	--	Unencumbered Assets		
Schedule 3.1.1	--	Closing Documents		
Schedule 4.1	--	Borrower Parties		

Schedule 4.2.3 -- Convertible/Exchangeable Outstanding Securities		
Schedule 4.3 -- Guarantor Disclosures		
Schedule 4.4 -- Subsidiaries		
Schedule 4.7 -- Litigation Disclosures		
Schedule 4.15.1 -- Environmental Disclosures		
Schedule 4.15.2 -- Environmental Disclosures		
Schedule 4.16 -- Labor Matters		
Schedule 6.6 -- Transactions with Affiliates		
CERTAIN REPORTS. ETC. The following, in each as of a recent date:		
4. A summary of the Borrower's insurance coverage and evidence that the insurance required by Section 5.6 is in full force and effect		
5. Copies of the financial information described in Section 5.1		
CHARTER DOCUMENTATION AND CERTIFICATES. The following, in the case of certificates and the like duly executed by the parties specified herein or therein:		
6. For each of the following Persons, as of a recent date, a certificate of limited partnership, as amended, certified by the appropriate Governmental Authority, and long-form good standing certificates and tax status and reports certificates (showing no unpaid tax liabilities) by the appropriate Governmental Authorities of its jurisdiction of formation and of each other jurisdiction listed below:		

Person	Jurisdiction of Formation	Other Jurisdictions		
Borrower	California	Arizona, Arkansas, Oregon, Tennessee, Texas, Oklahoma, Virginia, Washington, Maryland		

7.	For each of the following Persons, as of a recent date, the charter, as amended, certified by the appropriate Governmental Authority of its jurisdiction of its formation, and good standing certificates and tax status certificates (showing no unpaid tax liabilities) by the appropriate Governmental Authorities of its jurisdiction of formation and of each other jurisdiction listed below:		
8.	For each of the Borrower Parties, a certificate dated the Amended and Restated Closing Date substantially in the form of Exhibit C-i (in the case of a corporation) or Exhibit C-2 (in the case of a partnership), including all exhibits		
9.	For the Borrower, an Officers' Certificate dated the Amended and Restated Closing Date, in substantially the form of Exhibit C-3, including attachments		
10.	A Notice of Responsible Officers, in substantially the form of Exhibit B-3		
11.	A Compliance Certificate of the Borrower dated as of 2001, substantially in the form of Exhibit F		
LEGAL OPINIONS. Legal opinion dated the Amended and Restated Closing Date addressed to the Lender from:			
12.	Counsel to the Borrower and the Guarantor, in substantially the form of Exhibit D		

SCHEDULE 4.1

Borrower Parties

The following sets forth the names of the Borrower Parties, type of entity and state of organization:

Name	Type of entity	State of Organization
PS Business Parks, L.P. ("Borrower")	Partnership	California
PS Business Parks, Inc. ("Guarantor"), general partner of Borrower	Corporation	California
Hernmore Corporation, subsidiary of Guarantor and sole member of Monroe and B & O	Corporation	Maryland
Monroe Parkway LLC ("Monroe")	Limited Liability Company	Virginia
AOPP Acquisition Corp. Two, subsidiary of Guarantor	Corporation	California
American Office Park TPGP, Inc., subsidiary of Guarantor and general partner of TPLP	Corporation	California
TPLP Office Park Properties ("TPLP")	Partnership	Texas
PSBP Northpointe D LLC	Limited Liability Company	Virginia
PSB Monroe, LLC	Limited Liability Company	Virginia
Metropark, LLC	Limited Liability Company	Maryland

SCHEDULE 4.2.3

Convertible/Exchangeable Outstanding Securities

The following lists the outstanding securities convertible or exchangeable for partnership units of the Borrower, or options, warrants or rights to purchase any such partnership units, or commitments of any kind for the issuance of additional partnership units or any such convertible or exchangeable securities or options, warrants or rights to purchase such partnership units:

1) PS Business Parks, Inc. - 1997 Stock Option and Incentive Plan

2) Registration Rights Agreement by and between PS Business Parks, Inc. and Acquiport Two Corporation dated March 17, 1998, as amended May 20, 1998

3) Common Stock Purchase Agreement by and among American Office Park Properties, Inc. and listed investors dated January 23, 1998

4) Common units in Operating Partnership redeemable for cash or equivalent number of shares of PS Business Parks, Inc. Common.

5) Series C 8 3/4% Cumulative Redeemable Preferred Operating Partnership Units.

6) Series X 8 7/8% Cumulative Redeemable Preferred Operating Partnership Units.

7) Series Y 8 7/8% Cumulative Redeemable Preferred Operating Partnership Units.

8) Series E 9 1/4% Cumulative Redeemable Preferred Operating Partnership Units.

SCHEDULE 4.3

Guarantor Disclosures

The following lists the outstanding securities convertible into or exchangeable for share of Capital Stock of the Guarantor, or any options, warrants or other rights to purchase any such Capital Stock, or any commitments of any kind for the issuance of additional shares of such Capital Stock or any such convertible or exchangeable securities or options, warrants or rights to purchase Capital Stock:

1) PS Business Parks, Inc. - 1997 Stock Option and Incentive Plan

2) Registration Rights Agreement by and between PS Business Parks, Inc. and Acquiport Two Corporation dated March 17, 1998, as amended May 20, 1998

3) Common Stock Purchase Agreement by and among American Office Park Properties, Inc. and listed investors dated January 23, 1998

4) Common units in Operating Partnership redeemable for cash or equivalent number of shares of PS Business Parks, Inc. Common.

5) Series C 8 3/4% Cumulative Redeemable Preferred Operating Partnership Units.

6) Series X 8 7/8% Cumulative Redeemable Preferred Operating Partnership Units.

7) Series Y 8 7/8% Cumulative Redeemable Preferred Operating Partnership Units.

8) Series E 9 1/4% Cumulative Redeemable Preferred Operating Partnership Units.

SCHEDULE 4.4

Subsidiaries

The following are Subsidiaries of the Borrower:

1) TPLP Office Park Properties, a Texas limited partnership

2) PSBP Northpointe D LLC

3) PSB Monroe, LLC

SCHEDULE 4.7

Litigation Disclosures

The following lists the actions, suits or proceedings pending or threatened, to the best knowledge of Borrower, against or affecting any Borrower Party or any of their respective properties before any Governmental Authority (a) in which there is a reasonable possibility of any adverse determination that could result in a material liability or have a Material Adverse Effect or (b) that in any manner draws into question the validity, legality or enforceability of any Loan Document or any transaction contemplated thereby:

None

SCHEDULE 4.15.1

Environmental Disclosures

To the Borrower's knowledge, there are no environmental conditions present at the Real Properties in the Unencumbered Pool which are probable to cause, in the aggregate, a material claim against the Borrower Parties. For the purposes of this representation, the term "material" is defined as claim which are probable to cause a loss, either (i) in the aggregate for all Real Properties in the Unencumbered Pool, in excess of $5,000,000, or (ii) for any individual Real Property in the Unencumbered Pool, in excess of $2,500,000; provided that for the purposes of this clause (ii), the Real Property located in Beaverton, Oregon and the contamination related thereto discussed in the footnotes to the financial statements included within the Guarantor's March 31, 2002 report on Form 10Q shall be excepted.

SCHEDULE 4.15.2

Environmental Disclosures

None.

SCHEDULE 4.16

Labor Matters

The following lists the collective bargaining agreements to which any Borrower Party is a party:

None.

SCHEDULE 6.6

Transactions with Affiliates

The following lists Contractual Obligations in effect:

Cost Sharing and Administrative Services Agreement by and among PSCC, Inc. and Owners (as defined) dated November 16, 1995, as amended January 2, 1997

PS BUSINESS PARKS, INC.
EXHIBIT 12
STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Net income	$57,430,000	$49,870,000	$51,181,000	$41,255,000	$29,400,000
Minority interest	32,170,000	27,489,000	26,741,000	16,049,000	11,208,000
Interest expense	5,324000	1,715,000	1,481,000	3,153,000	2,361,000
Earnings available to cover fixed charges	$94,924,000	$79,074,000	$79,403,000	$60,457,000	$42,969,000
Fixed charges (1)	$ 5,612,000	$ 2,806,000	$ 2,896,000	$ 4,142,000	$ 2,629,000
Preferred distributions	33,340,000	22,961,000	17,273,000	7,562,000	-
Combined fixed charges and preferred distributions	$38,952,000	$25,767,000	$20,169,000	$11,704,000	$ 2,629,000
Ratio of earnings to fixed charges	16.91	28.18	27.42	14.60	16.34
Ratio of earnings to combined fixed charges and preferred distributions	2.44	3.07	3.94	5.17	16.34

Supplemental disclosure of Ratio of Funds from Operations ("FFO") to fixed charges:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
FFO	$103,045,000	$93,568,000	$85,977,000	$76,353,000	$57,430,000
Interest expense	5,324,000	1,715,000	1,481,000	3,153,000	2,361,000
Minority interest in income – preferred units	17,927,000	14,107,000	12,185,000	4,156,000	-
Preferred dividends	15,412,000	8,854,000	5,088,000	3,406,000	-
Adjusted FFO available to cover fixed charges	$141,708,000	$118,244,000	$104,731,000	$87,068,000	$59,791,000
Fixed charges (1)	$ 5,612,000	$ 2,806,000	$ 2,896,000	$ 4,142,000	$ 2,629,000
Preferred distributions	33,339,000	22,961,000	17,273,000	7,562,000	-
Combined fixed charges and preferred distributions	$38,951,000	$25,767,000	$20,169,000	$11,704,000	$ 2,629,000
Ratio of FFO to fixed charges	25.25	42.14	36.16	21.02	22.74
Ratio of FFO to combined fixed charges and preferred distributions	3.64	4.59	5.19	7.44	22.74

(1) Fixed charges include interest expense plus capitalized interest.

EXHIBIT 21

List of Subsidiaries

The following sets forth the subsidiaries of the Registrant and their respective states of incorporation or organization:

Name	State
American Office Park Properties, TPGP, Inc.	California
PSBP QRS, Inc.	California
Hernmore, Inc.	Maryland
AOPP Acquisition Corp. Two	California
Tenant Advantage, Inc.	California
PS Business Parks, L.P.	California
TPLP Office Park Properties	Texas
PSBP Northpointe D, L.L.C.	Virginia
PSBP Monroe, L.L.C.	Virginia
Monroe Parkway, L.L.C.	Virginia
Metro Park I, L.L.C.	Delaware
Metro Park II, L.L.C.	Delaware
Metro Park III, L.L.C.	Delaware
Metro Park IV, L.L.C.	Delaware
Metro Park V, L.L.C.	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-48313) of PS Business Parks, Inc. pertaining to the PS Business Parks, Inc. 1997 Stock Option and Incentive Plan, the Registration Statement on Form S-8 (No. 333-50274) of PS Business Parks, Inc. pertaining to the PS 401(k)/Profit Sharing Plan, the Registration Statement on Form S-3 (No. 333-78627) and in the related prospectus and the Registration Statement on Form S-3 (No. 333-50463) and the related prospectus of our report dated February 14, 2003 with respect to the consolidated financial statements and schedule of PS Business Parks, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2002 filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 27, 2003

Exhibit 99.1

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of PS Business Parks, Inc. (the "Company") for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ronald L. Havner Jr., as Chief Executive Officer of the Company, and Jack Corrigan, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald L. Havner, Jr.
Name: Ronald L. Havner, Jr.
Title: Chief Executive Officer
Date: March 27, 2003

/s/ Jack Corrigan
Name: Jack Corrigan
Title: Chief Financial Officer
Date: March 27, 2003

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald L. Havner, Jr., Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Ronald L. Havner, Jr.
[Signature]
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack Corrigan, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of PS Business Parks, Inc;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Jack Corrigan
[Signature]
Chief Financial Officer