

PRENTISS PROPERTIES TRUST/MD

Form 10-Q

May 06, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2005**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1-14516**

**PRENTISS PROPERTIES TRUST**

**(Exact Name of Registrant as Specified in its Charter)**

**Maryland  
(State or Other Jurisdiction of Incorporation or  
Organization)**

**75-2661588  
(I.R.S. Employer Identification No.)**

**3890 West Northwest Highway, Suite 400, Dallas, Texas 75220  
(Address of Principal Executive Offices)**

**(214) 654-0886  
(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of Common Shares of Beneficial Interest, \$0.01 par value, outstanding as of May 5, 2005, was 45,190,280 and the number of outstanding Participating Cumulative Redeemable Preferred Shares of Beneficial Interest, Series D, was 3,773,585.

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**PRENTISS PROPERITES TRUST**

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**FORWARD-LOOKING STATEMENTS**

This Form 10-Q and the documents incorporated by reference into this Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend, predict, project, and similar expressions, as they relate to us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management as well as assumptions made by us and information currently available to us. These forward-looking statements are subject to certain risks, uncertainties and assumptions, including risks, uncertainties and assumptions related to the following:

Our failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;

Competition in markets where we have properties;

Possible adverse changes in tax and environmental laws, as well as the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparison of financial results;

Our dependence on key personnel whose continued service is not guaranteed;

Potential liability for uninsured losses and environmental contamination;

Changes in our investment, financing and borrowing policies without shareholder approval;

Our properties are illiquid assets;

The effect of shares available for future sale on the price of common shares;

Factors that could result in the poor operating performance of our properties including tenant defaults and increased costs such as taxes, insurance, utilities and casualty losses that exceed insurance limits;

Limited ability of shareholders to effect change of control;

Changes in market conditions including market interest rates and employment rates;

Conflicts of interest with management, our board of trustees and joint venture partners could impact business decisions;

Our incurrence of debt and use of variable rate and derivative financial instruments;

Our third-party property management, leasing, development and construction business and related services;

Our real estate acquisition, redevelopment, development and construction activities;

Risks associated with an increase in the frequency and scope of changes in state and local tax laws and increases in the number of state and local tax audits; and

The geographic concentration of our properties;

Cost of compliance with the Americans with Disabilities Act and other similar laws related to our properties.

Changes in market conditions including capitalization rates applied in real estate acquisitions;

If one or more of these risks or uncertainties materialize, or if any underlying assumption proves incorrect, actual results may vary materially from those anticipated, expected or projected. Such forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. A detailed discussion of risks is included, under the caption *Risk Factors* in our Form 10-K, filed on March 15, 2005. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-Q or the date of any document incorporated by reference into this Form 10-Q. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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**PRENTISS PROPERTIES TRUST  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

(in thousands, except share and per share amounts)

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Operating real estate:		
Land	\$ 349,779	\$ 341,321
Buildings and improvements	1,827,141	1,789,043
Less: accumulated depreciation	(245,518)	(234,007)
	1,931,402	1,896,357
Construction in progress	28,963	23,417
Land held for development	59,084	59,014
Deferred charges and other assets, net	269,015	260,283
Notes receivable, net	1,500	1,500
Accounts receivable, net	55,910	55,772
Cash and cash equivalents	10,785	8,586
Escrowed cash	7,151	9,584
Investments in securities and insurance contracts	5,110	3,279
Investments in unconsolidated joint ventures and subsidiaries	14,648	12,943
Interest rate hedges	7,242	2,804
Total assets	\$ 2,390,810	\$ 2,333,539
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Mortgages and notes payable	\$ 1,249,083	\$ 1,191,911
Interest rate hedges	1,222	3,850
Accounts payable and other liabilities	89,059	105,304
Distributions payable	28,192	28,103
Total liabilities	1,367,556	1,329,168
Minority interest in operating partnership	24,613	24,990
Minority interest in real estate partnerships	62,029	35,792
Commitments and contingencies		
Preferred shares \$.01 par value, 20,000,000 shares authorized, 3,773,585 shares issued and outstanding	100,000	100,000
Common shares \$.01 par value, 100,000,000 shares authorized, 48,394,871 and 48,268,845 (includes 3,269,746 and 3,286,957 in treasury) shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	484	483

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Additional paid-in capital	1,024,545	1,020,917
Common shares in treasury at cost 3,269,746 and 3,286,957 shares at March 31, 2005 and December 31, 2004, respectively	(82,376)	(82,694)
Unearned compensation	(6,491)	(3,386)
Accumulated other comprehensive income	6,595	(302)
Distributions in excess of earnings	(106,145)	(91,429)
Total shareholders' equity	936,612	943,589
Total liabilities and shareholders' equity	\$ 2,390,810	\$ 2,333,539

The accompanying notes are an integral part of these consolidated financial statements.



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**PRENTISS PROPERTIES TRUST**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

(in thousands, except per share amounts)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Revenues:		
Rental income	\$ 95,039	\$ 84,298
Service business and other income	3,050	3,488
	98,089	87,786
Operating expenses:		
Property operating and maintenance	26,045	21,377
Real estate taxes	10,859	9,336
General and administrative and personnel costs	2,883	2,585
Expenses of service business	2,655	1,649
Depreciation and amortization	24,559	21,284
	67,001	56,231
Other expenses:		
Interest expense	17,875	16,199
Amortization of deferred financing costs	718	565
	18,593	16,764
Income from continuing operations before equity in income of unconsolidated joint ventures and subsidiaries and minority interests	12,495	14,791
Equity in income of unconsolidated joint ventures and subsidiaries	698	578
Minority interests	(505)	(1,600)
Income from continuing operations	12,688	13,769
Discontinued operations:		
Income from discontinued operations		1,978
Gain from disposition of discontinued operations	15	
Minority interests related to discontinued operations		(64)
	15	1,914
Income before gain on sale of an interest in a real estate partnership	12,703	15,683

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Gain on sale of an interest in a real estate partnership			1,316
Net income	\$	12,703	\$ 16,999
Preferred dividends		(2,113)	(3,713)
Net income applicable to common shareholders	\$	10,590	\$ 13,286
Basic earnings per common share:			
Income from continuing operations applicable to common shareholders	\$	0.24	\$ 0.27
Discontinued operations			.04
Net income applicable to common shareholders basic	\$	0.24	\$ 0.31
Weighted average number of common shares outstanding basic		44,884	43,426
Diluted earnings per common share:			
Income from continuing operations applicable to common shareholders	\$	0.23	\$ 0.26
Discontinued operations			.04
Net income applicable to common shareholders diluted	\$	0.23	\$ 0.30
Weighted average number of common shares and common share equivalents outstanding diluted		45,109	43,670

The accompanying notes are an integral part of these consolidated financial statements.

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**PRENTISS PROPERTIES TRUST**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
(dollars in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 12,703	\$ 16,999
Unrealized gains and losses on securities:		
Unrealized (losses)/gains arising during the period	(90)	26
Unrealized gains and losses on interest rate hedges:		
Unrealized gains/(losses) arising during the period	6,987	(2,004)
Other comprehensive income	6,897	(1,978)
Comprehensive income	\$ 19,600	\$ 15,021

The accompanying notes are an integral part of these consolidated financial statements.

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**PRENTISS PROPERTIES TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
(dollars in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 12,703	\$ 16,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests	505	1,664
Gain from disposition of discontinued operations	(15)	(1,316)
Provision for doubtful accounts	528	887
Depreciation and amortization	24,559	23,111
Amortization of deferred financing costs	718	565
Earnings in excess of distribution from joint venture and unconsolidated subsidiaries	(183)	(122)
Non-cash compensation	550	868
Gain on derivative financial instruments	(79)	(86)
Changes in assets and liabilities:		
Deferred charges and other assets	(1,865)	(1,731)
Accounts receivable	(666)	(2,926)
Escrowed cash	2,433	(1,149)
Accounts payable and other liabilities	(16,323)	(14,487)
Net cash provided by operating activities	22,865	22,277
<b>Cash Flows from Investing Activities:</b>		
Development/redevelopment of real estate	(6,065)	(1,515)
Purchase of real estate	(51,376)	
Capital expenditures for in-service properties	(15,045)	(10,754)
Proceeds from the sale of a joint venture interest in a real estate partnership		69,338
Proceeds received from repayments of notes receivable		9,464
Investments in securities and insurance contracts	(1,009)	(613)
Investments in unconsolidated subsidiaries	(1,586)	
Net cash used/provided by in investing activities	(75,081)	65,920
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from sale of common shares	258	46,760
Redemption of series E preferred units		(10,000)
Redemption of series B preferred units		(95,000)
Capital contribution from minority interest partners in consolidated joint ventures	25,146	300
Repurchase of operating partnership common units		(891)

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Distributions paid to limited partners	(756)	(826)
Distributions paid to common shareholders	(25,234)	(23,880)
Distributions paid to preferred shareholders	(2,171)	(2,113)
Distributions paid to preferred unitholders		(3,176)
Proceeds from mortgages and notes payable	336,224	165,000
Repayments of mortgages and notes payable	(279,052)	(159,101)
Net cash provided by/used in financing activities	54,415	(82,927)
Net change in cash and cash equivalents	2,199	5,270
Cash and cash equivalents, beginning of period	8,586	5,945
Cash and cash equivalents, end of period	\$ 10,785	\$ 11,215
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 18,404	\$ 16,774

The accompanying notes are an integral part of these consolidated financial statements.

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**PRENTISS PROPERTIES TRUST**  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. The Organization***Organization*

We are a self-administered and self-managed Maryland REIT that acquires, owns, manages, leases, develops and builds primarily office properties throughout the United States. We are self-administered in that we provide our own administrative services, such as accounting, tax and legal, through our own employees. We are self-managed in that we provide all the management and maintenance services that our properties require through our own employees, such as, property managers, leasing professionals and engineers. We operate principally through our operating partnership, Prentiss Properties Acquisition Partners, L.P., and its subsidiaries, and two management service companies, Prentiss Properties Resources, Inc. and its subsidiaries and Prentiss Properties Management, L.P. The ownership of the operating partnership was as follows at March 31, 2005:

(units in thousands)	<b>Common Units</b>	<b>%</b>	<b>Series D Convertible Preferred Units</b>	<b>%</b>
Prentiss Properties Trust	45,189 <sup>(A)</sup>	97.14%	3,774	100.00%
Third parties	1,329	2.86%		0.00%
Total	46,518	100.00%	3,774	100.00%

<sup>(A)</sup> Includes 63,741 common shares held by the company pursuant to a deferred compensation plan. The shares are accounted for as common shares in treasury on the consolidated balance sheet.

As of March 31, 2005, we owned interests in a diversified portfolio of 135 primarily suburban Class A office and suburban industrial properties as follows:

	<b>Number of Buildings</b>	<b>Net Rentable Square Feet<sup>(1)</sup></b> (in thousands)
Office properties	108	17,729
Industrial properties	27	2,203
Total	135	19,932

<sup>(1)</sup> Includes 100% of the net rentable square feet of our consolidated wholly-owned and joint venture properties and 100% of our unconsolidated joint venture properties, which totaled 17.3 million, 989,000 and 1.6 million, respectively. Our pro rata share of the net rentable square feet totals 18.5 million, which includes 504,000 and 669,000 from consolidated and unconsolidated joint venture properties, respectively.

As of March 31, 2005, our properties were 89% leased to approximately 960 tenants. In addition to managing properties that we own, we manage approximately 9.5 million net rentable square feet in office, industrial and other properties for third parties.

We have determined that our reportable segments are those that are based on our method of internal reporting, which disaggregates our business by geographic region. As of March 31, 2005, our reportable segments include our five regions (1) Mid-Atlantic; (2) Midwest; (3) Southwest; (4) Northern California; and (5) Southern California.

At March 31, 2005, our properties were located in 10 markets, which were included in our reportable segments as follows:

**Reportable Segment**

Mid-Atlantic

Midwest

Southwest

Northern California

Southern California

**Market**

Metropolitan Washington D.C.

Chicago, Suburban Detroit

Dallas/Fort Worth, Austin, Denver

Oakland, Silicon Valley

San Diego, Los Angeles

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**PRENTISS PROPERTIES TRUST  
NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS  
(Unaudited)**

*Real Estate Transactions*

On February 14, 2005, Prentiss Office Investors, L.P., which is owned 51% by our operating partnership and its affiliates and 49% by Stichting Pensioenfonds ABP, acquired from an unrelated third party, a two building office complex with approximately 197,000 net rentable square feet. The properties are located in Herndon, Virginia and were acquired for gross proceeds of \$51.8 million. Each partner contributed their pro rata share of the purchase price to Prentiss Office Investors, L.P. for the acquisition. Amounts contributed from the operating partnership were funded with proceeds from our revolving credit facility.

*Other Transactions*

On January 13, 2005, Prentiss Office Investors, L.P. completed a five-year interest rate swap agreement in a notional amount of \$20.0 million. The interest rate swap effectively locks 30-day LIBOR at 4.00% on \$20.0 million of our variable rate borrowings. The interest rate swap is effective February 1, 2005 and matures February 1, 2010.

During the first quarter 2005, we formed Prentiss Properties Capital Trust I, a Delaware statutory trust, established to issue \$26,250,000 and \$25,000,000 of trust preferred equity securities to Taberna Preferred Funding I, Ltd. and Merrill Lynch International, respectively in a private placement pursuant to an applicable exemption from registration. Prentiss Properties Limited, Inc., a wholly-owned affiliate of our operating partnership acquired for \$1.6 million a residual interest (common securities), of Prentiss Properties Capital Trust I, representing 3% of the overall equity of the trust. The preferred equity securities will mature on March 30, 2035, but may be redeemed by Prentiss Properties Capital Trust I beginning on March 30, 2010. The holders of both the preferred equity and common securities will receive quarterly distributions from Prentiss Properties Capital Trust I, at a variable rate equal to LIBOR plus 1.25%. Distributions will be cumulative and will accrue from the date of original issuance but may be deferred for up to 20 consecutive quarterly periods.

Prentiss Properties Capital Trust I used the proceeds from the issuance of the preferred and common securities to acquire \$52.8 million of junior subordinated notes from our operating partnership pursuant to an indenture agreement.

The notes will mature on March 30, 2035, but may be redeemed at our option, in whole or in part, beginning on March 30, 2010 in accordance with the provisions of the indenture agreement. The notes bear interest at a variable rate equal to LIBOR plus 1.25%. Interest is cumulative and will accrue from the date of original issuance but may be deferred by us for up to 20 consecutive quarterly periods.

The trust is a variable interest entity under paragraph 5(b)(1) of FIN 46, because the equity investors at risk hold no substantial decision-making rights. Prentiss Properties Limited, Inc.'s investment is financed directly by our operating partnership and therefore it is not considered at risk. Because Prentiss Properties Limited, Inc. is not the primary beneficiary in the trust, the accounts of the trust are not consolidated with and into Prentiss Properties Limited, Inc. and therefore are not consolidated with and into our operating partnership. Prentiss Properties Limited, Inc.'s investment in the trust is presented on our consolidated balance sheet as an investment in joint ventures and unconsolidated subsidiaries and is accounted for using the cost method of accounting.

The proceeds received by the operating partnership in exchange for the notes were used to repay a portion of the outstanding borrowings under our revolving credit facility. The notes are presented on our consolidated balance sheet



in the line item mortgages and notes payable.

On March 22, 2005, we completed a ten-year, \$114.2 million loan collateralized by our Burnett Plaza property, a 1,025,000 net rentable square foot office building in Fort Worth, Texas. The interest rate is fixed at 5.02% and the monthly payments are interest only until April 1, 2008 at which time it converts to amortizing, on a 30-year amortization schedule, until the maturity date of April 1, 2015. The proceeds were used to repay a portion of the outstanding borrowings under our revolving credit facility.

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**PRENTISS PROPERTIES TRUST**  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**(Unaudited)**

**2. Basis of Presentation**

The accompanying financial statements are unaudited; however, our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. The December 31, 2004 comparative balance sheet information was derived from audited financial statements. The results for the three month period ended March 31, 2005 are not necessarily indicative of the results to be obtained for the full fiscal year. These financial statements should be read in conjunction with our audited financial statements, and notes thereto, included in our annual report on Form 10-K for the fiscal year ended December 31, 2004.

**3. Share-Based Compensation**

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The statement amends Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, expanding disclosure requirements and providing alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock or share-based employee compensation.

On January 1, 2003, we adopted the fair value based method of accounting as prescribed by Statement of Financial Accounting Standards No. 123 as amended, for our share-based compensation plans and we elected to apply this method on a prospective basis as prescribed in Statement of Financial Accounting Standards No. 148. The prospective basis requires that we apply the fair value based method of accounting to all awards granted, modified or settled after the beginning of the fiscal year in which we adopt the accounting method.

Historically, we applied the intrinsic value based method of accounting as prescribed by APB Opinion 25 and related Interpretations in accounting for our share-based awards. Had we fully adopted Statement of Financial Accounting Standards No. 123 for awards issued prior to January 1, 2003 it would have changed our method for recognizing the cost of our plans. Had the compensation cost for our share-based compensation plans been determined consistent with Statement of Financial Accounting Standards No. 123, our net income applicable to common shareholders and net income per common share for the three months ended March 31, 2005 and 2004 would approximate the pro forma amounts below:

(amounts in thousands, except per share data)	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income applicable to common shareholders as reported	\$ 10,590	\$ 13,286
Add: Share-based employee compensation expense included therein	967	500
Deduct: Total share-based employee compensation expense determined under fair value method for all awards	(968)	(521)

Pro Forma net income applicable to common shareholders	\$ 10,589	\$ 13,265
Earnings per share:		
Basic as reported	\$ 0.24	\$ 0.31
Basic pro forma	\$ 0.24	\$ 0.31
Diluted as reported	\$ 0.23	\$ 0.30
Diluted pro forma	\$ 0.23	\$ 0.30

The effects of applying Statement of Financial Accounting Standards No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.

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**PRENTISS PROPERTIES TRUST**  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**(Unaudited)**

**4. Earnings per Share**

We calculate earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share, which requires a dual presentation of basic and diluted earnings per share on the face of the income statement. Additionally, the statement requires a reconciliation of the numerator and denominator used in computing basic and diluted earnings per share. The table below presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share for the three month period ended March 31, 2005 and 2004:

(in thousands, except per share data)	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<i>Reconciliation of the numerator used for basic earnings per share</i>		
Income from continuing operations	\$ 12,688	\$ 13,769
Preferred dividends	(2,113)	(3,713)
Gain on sale of an interest in a real estate partnership		1,316
Income from continuing operations applicable to common shareholders	\$ 10,575	\$ 11,372
Discontinued operations	15	1,914
Net income applicable to common shareholders	\$ 10,590	\$ 13,286
<i>Reconciliation of the denominator used for basic earnings per share</i>		
Weighted average common shares outstanding	44,884	43,426
Basic earnings per share	\$ 0.24	\$ 0.31
<i>Reconciliation of the numerator used for dilutive earnings per share</i>		
Income from continuing operations	\$ 12,688	\$ 13,769
Preferred dividends	(2,113)	(3,713)
Gain on sale of an interest in a real estate partnership		1,316
Income from continuing operations applicable to common shareholders	\$ 10,575	\$ 11,372
Discontinued operations	15	1,914
Net income applicable to common shareholders	\$ 10,590	\$ 13,286
<i>Reconciliation of the denominator used for dilutive earnings per share <sup>(1)</sup></i>		
Weighted average common shares outstanding	44,884	43,426
Dilutive options	109	192
Dilutive share grants	116	52

Weighted average common shares and common share equivalents outstanding (1)	45,109	43,670
Diluted earnings per share	\$ 0.23	\$ 0.30

(1) The following securities were not included in the diluted earnings per share computation because they would have had an antidilutive effect.

<b>Antidilutive Securities (in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Series D Convertible Preferred Shares	3,774	3,774

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**PRENTISS PROPERTIES TRUST**  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**(Unaudited)**

**5. Deferred Charges and Other Assets, Net**

Deferred charges consisted of the following at March 31, 2005 and December 31, 2004:

	(in thousands)	
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Deferred leasing costs and tenant improvements	\$ 325,455	\$ 311,320
In-place lease values	30,972	27,910
Above market lease values	5,668	5,666
Deferred financing costs	14,851	14,568
Prepays and other assets	11,757	11,610
	388,703	371,074
Less: accumulated amortization	(119,688)	(110,791)
	\$ 269,015	\$ 260,283

We record the amortization related to deferred leasing costs and tenant improvements and in-place lease values in the line item depreciation and amortization. We record above market lease value amortization in the line item rental income. Amortization for deferred financing cost is recorded in the line item amortization of deferred financing costs, and the amortization for prepaid items is recorded in the line items property operating and maintenance and real estate taxes.

**6. Notes Receivable**

Our notes receivable balance of \$1.5 million at March 31, 2005 is the result of a real estate transaction that included a non-recourse promissory note totaling \$4.4 million, collateralized by a real estate property sold, maturing March 1, 2005, bearing interest at 7.95% per annum and requiring interest only payments until maturity. On December 22, 2004, we received correspondence from the borrower indicating an inability to fulfill its total obligation under the note. Due to the fact that our note receivable is subordinate to a first mortgage totaling approximately \$12.0 million, we initiated an evaluation of the underlying real estate. Our evaluation was to determine whether the fair value of the property, less cost to sell, would be sufficient to satisfy both the first mortgage and our note receivable. In our opinion, the fair value of the underlying real estate would not be sufficient to satisfy both the first mortgage and our note receivable and thus, in the preparation of our financial statements for the year ended December 31, 2004, we recognized a \$2.9 million write-down of the note. On April 4, 2005, the borrower sent notice notifying us that they were attempting to restructure the first mortgage. The \$1.5 million note receivable balance at March 31, 2005 represents our estimate of the present value of the expected future cash flows to be received under the note.

**7. Accounts Receivable, Net**

Accounts receivable consisted of the following at March 31, 2005 and December 31, 2004:

	(in thousands)	
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Rents and services	\$ 8,581	\$ 10,449
Accruable rental income	53,258	50,721
Other	422	809
	62,261	61,979
Less: allowance for doubtful accounts	(6,351)	(6,207)
	\$ 55,910	\$ 55,772

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**8. Investments in Unconsolidated Joint Ventures and Subsidiaries**

The following information summarizes the financial position at March 31, 2005 and December 31, 2004 and the results of operations for the three month periods ended March 31, 2005 and 2004 for the investments in which we held a non-controlling interest during the period presented:

Summary of Financial Position:  (in thousands)	Total Assets		Total Debt <sup>(4)</sup>		Total Equity		Company's Investment	
	March 31, 2005	Dec. 31, 2004	March 31, 2005	Dec. 31, 2004	March 31, 2005	Dec. 31, 2004	March 31, 2005	Dec. 31, 2004
Broadmoor Austin Associates <sup>(1)</sup>	\$ 97,312	\$ 97,962	\$ 130,224	\$ 131,979	\$ (34,473)	\$ (34,814)	\$ 4,324	\$ 4,217
Tyson's International Partners <sup>(2)</sup>	89,360	89,268	58,903	59,113	28,962	28,914	8,738	8,726
Other Investments <sup>(3)</sup>							1,586	
							\$ 14,648	\$ 12,943

Summary of Operations for the Three Months Ended  March 31, 2005 and 2004 (in thousands)	Total Revenue		Net Income		Company's Share of Net Income/(Loss)	
	2005	2004	2005	2004	2005	2004
Broadmoor Austin Associates	\$ 5,646	\$ 5,017	\$ 1,373	\$ 1,220	\$ 686	\$ 610
Tyson's International Partners	3,159	2,943	48	(126)	12	(32)
Total					\$ 698	\$ 578

(1) We own a 50% non-controlling interest in Broadmoor Austin Associates, an entity, which owns a seven-building, 1.1 million net rentable square foot office complex in Austin, Texas.

(2) At March 31, 2005, we owned a 25% non-controlling interest in Tyson's International Partners, an entity, which owns two office properties containing 452,000 net rentable square feet in the Northern Virginia area. On May 2, 2005, we acquired the remaining 75% interest in this joint venture.

(3) Represents an interest in Prentiss Properties Capital Trust I that we account for using the cost method of accounting.

(4) The mortgage debt, all of which is non-recourse, is collateralized by the individual real estate property or properties within each venture.





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**9. Mortgages and Notes Payable**

At March 31, 2005, we had mortgages and notes payable of \$1.25 billion, excluding our proportionate share of debt from our unconsolidated joint ventures.

The following table sets forth our consolidated mortgages and notes payable as of March 31, 2005 and December 31, 2004:

Description	(in thousands)		Amortization	Interest Rate <sup>(1)</sup>	Maturity
	March 31, 2005	December 31, 2004			
Revolving credit facility	\$ 171,500	\$ 217,500	None	LIBOR+1.250%	February 19, 2007
PPREFI portfolio loan <sup>(2)</sup>	180,100	180,100	None	7.58%	February 26, 2007
High Bluffs construction loan	13,116	8,929	None	LIBOR+1.400%	September 1, 2007
Collateralized term loan Union Bank of Calif. <sup>(3)</sup>	30,000	30,000	None	LIBOR+1.150%	September 30, 2007
Unsecured term loan Eurohypo I	100,000	100,000	None	LIBOR+1.250%	May 22, 2008
Unsecured term loan Commerz	75,000	75,000	None	LIBOR+1.250%	March 15, 2009
Unsecured term loan Eurohypo II	13,690	13,760	30 yr	7.46%	July 15, 2009
Prentiss Properties Capital Trust I Debenture	52,836		None	LIBOR+1.250%	March 30, 2035
Collateralized term loan Mass Mutual <sup>(4)</sup>	85,000	85,000	None	LIBOR+0.850%	August 1, 2009
Variable rate mortgage notes payable <sup>(5)</sup>	30,700	96,700	None	(6)	(6)
Fixed rate mortgage notes payable <sup>(7)</sup>	497,141	384,922	(8)	(8)	(8)
	<b>\$1,249,083</b>	<b>\$ 1,191,911</b>			

(1) 30-day LIBOR was 2.87% at March 31, 2005.

(2) The PPREFI portfolio loan is collateralized by 36 properties with an aggregate net book value of real estate of \$235.5 million.

(3) The term loan is collateralized by two properties with an aggregate net book value of real estate of \$18.3 million.

- (4) The term loan is collateralized by 9 properties with an aggregate net book value of real estate of \$107.2 million.
- (5) The variable rate mortgage loans are collateralized by 3 buildings with an aggregate net book value of \$40.4 million.
- (6) Interest rates on our variable rate mortgages range from 30-day LIBOR plus 110 basis points to 30-day LIBOR plus 130 basis points. Maturity dates range from July 2009 through December 2009.
- (7) The fixed rate mortgage loans are collateralized by 23 buildings with an aggregate net book value of \$571.3 million.
- (8) The effective interest rates for our fixed rate mortgages range from 3.70% to 8.05% with a weighted average effective interest rate of 6.69% at March 31, 2005. Maturity dates range from November 2005 through April 2015 with a weighted average maturity of 6.3 years from March 31, 2005.

Our mortgages and notes payable at March 31, 2005 consisted of \$677.2 million of fixed rate, non-recourse, long-term mortgages, \$13.7 million of fixed rate, recourse debt and \$558.2 million of floating rate debt, \$415.0 million of which was hedged at March 31, 2005 with variable to fixed rate hedges.

Future scheduled principal repayments of our outstanding mortgages and notes payable are as follows:

	(in thousands)
2005	\$ 50,257
2006	9,704
2007	406,798
2008	107,094
2009	251,764
Thereafter	423,466
	\$ 1,249,083

## 10. Interest Rate Hedges

In the normal course of business, we are exposed to the effect of interest rate changes. We limit our interest rate risk by following established risk management policies and procedures including the use of derivatives. For interest rate exposures, derivatives are used to hedge against rate movements on our related debt.

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To manage interest rate risk, we may employ options, forwards, interest rate swaps, caps and floors or a combination thereof depending on the underlying exposure. We undertake a variety of borrowings from credit facilities, to medium- and long-term financings. To hedge against increases in interest cost, we use interest rate instruments, typically interest rate swaps, to convert a portion of our variable-rate debt to fixed-rate debt.

On the date we enter into a derivative contract, we designate the derivative as a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (cash flow hedge). These agreements involve the exchange of amounts based on a variable interest rate for amounts based on fixed interest rates over the life of the agreement based upon a notional amount. The difference to be paid or received as the interest rates change is recognized as an adjustment to interest expense. The related amount payable to or receivable from counterparties is included in accounts payable and other liabilities. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g. until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of non-hedging instruments are reported in current-period earnings.

We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting prospectively, as discussed below.

We discontinue hedge accounting prospectively when (1) we determine that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When we discontinue hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings.

To determine the fair value of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For our derivatives, standard market conventions

and techniques such as discounted cash flow analysis, option pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings. This reclassification is consistent with when the hedged items are recognized in earnings. Within the next twelve months, we expect to reclassify to earnings approximately \$2.4 million and \$926,000 of unrealized gains and unrealized losses, respectively.

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The following table summarizes the notional values and fair values of our derivative financial instruments at March 31, 2005. The notional value provides an indication of the extent of our involvement in these instruments as of the balance sheet date, but does not represent exposure to credit, interest rate or market risks.

Notional Amount	Swap Rate Paid (Fixed)	Swap Rate Received (Variable) at March 31, 2005	Swap Maturity	Fair Value (in thousands)
\$25 million	4.345%	2.87%	July 2005	\$ (89)
\$15 million	4.345%	2.87%	July 2005	(53)
\$20 million	5.985%	2.87%	March 2006	(432)
\$30 million	5.990%	2.87%	March 2006	(649)
\$50 million	2.270%	2.87%	August 2007	2,087
\$25 million	2.277%	2.87%	August 2007	1,040
\$70 million <sup>(1)</sup>	4.139%	2.87%	August 2008	348
			September	
\$30 million	3.857%	2.87%	2008	456
\$30 million	3.819%	2.87%	October 2008	494
\$20 million	3.819%	2.87%	October 2008	329
\$50 million	3.935%	2.87%	May 2009	858
\$30 million	3.443%	2.87%	October 2009	1,225
\$20 million <sup>(1)</sup>	4.000%	2.87%	February 2010	406
Total				\$ 6,020

<sup>(1)</sup> The interest rate swap agreement was executed by Prentiss Office Investors, L.P., a partnership which is 51% owned by our operating partnership.

Cash payments made under our interest rate swap agreements exceeded cash receipts from our interest rate swap agreements by \$1.5 million and \$2.6 million for the three months ended March 31, 2005 and 2004, respectively.

**11. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities consisted of the following at March 31, 2005 and December 31, 2004:

(in thousands)	
March 31, 2005	December 31, 2004

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Accrued interest expense	\$	5,861	\$	5,685
Accrued real estate taxes		18,444		28,178
Advance rents and deposits		19,865		20,010
Deferred compensation liability		7,139		6,516
Below market lease values, net of amortization <sup>(1)</sup>		8,039		8,319
Other liabilities		29,711		36,596
	\$	89,059	\$	105,304

<sup>(1)</sup> Accumulated amortization for below market lease values as of March 31, 2005 and 2004 was \$2.4 million and \$2.0 million, respectively. We record below market lease value amortization in the line item rental income.

**12. Distributions**

On March 31, 2005, we declared a cash distribution for the first quarter of 2005 in the amount of \$0.56 per share, payable on April 8, 2005 to common shareholders of record on March 31, 2005. Additionally, we determined that a distribution of \$0.56 per common unit would be made to the partners of the operating partnership and the holders of our Series D Convertible Preferred Shares. The distributions totaled \$28.2 million and were paid April 8, 2005.

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**13. Supplemental Disclosure of Non-Cash Activities**

During the three months ended March 31, 2005, we declared cash distributions totaling \$28.2 million payable to holders of common shares, operating partnership units and Series D Convertible Preferred Shares. The distributions were paid April 8, 2005.

Pursuant to our long-term incentive plan, during the three months ended March 31, 2005, we issued 110,250 restricted common shares to various key employees. The shares, which had a market value of approximately \$3.8 million based upon the per share price on the date of grant, were classified as unearned compensation and recorded in the shareholders' equity section of the consolidated balance sheet. The unearned compensation is amortized quarterly as compensation expense over the three-year vesting period.

During the three months ended March 31, 2005, 5,483 common shares were issued pursuant to the conversion of 5,484 common units of our operating partnership. The common shares had a market value of approximately \$199,000 on the conversion date.

During the three months ended March 31, 2005, common shares held in treasury decreased by \$318,000 primarily relating to 26,165 common shares issued from treasury and 8,954 common shares placed in treasury in connection with our Key Employee Share Option Plan.

We marked-to-market our investments in securities and our interest rate hedges. During the three months ended March 31, 2005, we recorded unrealized gains of \$7.0 million and unrealized losses of \$90,000 on our interest rate hedges and investments in securities, respectively.

In connection with the acquisitions during the three months ended March 31, 2005, we recorded and assumed liabilities of approximately \$520,000.

**14. Segment Information**

The tables below present information about segment assets, our investments in equity method investees, expenditures for additions to long-lived assets and revenues and income from continuing operations used by our chief operating decision maker as of and for the three month period ended March 31, 2005 and 2004:

**For the Three Months Ended March 31, 2005  
(in thousands)**

	Mid- Atlantic	Midwest	Southwest	Northern California	Southern California	Total Segments	Corporate Not Allocable To	Consolidated Total
Revenues	\$ 26,570	\$ 16,740	\$ 32,085	\$ 12,240	\$ 9,927	\$ 97,562	\$ 527	\$ 98,089



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Income from continuing operations	\$ 11,752	\$ 4,259	\$ 9,600	\$ 4,395	\$ 3,573	\$ 35,579	\$ (20,891)	\$ 12,688
Additions to long-lived assets:								
Development/redevelopment	\$ 3	\$ 208	\$ 13	\$ 246	\$ 5,595	\$ 6,065	\$	\$ 6,065
Purchase of real estate	51,818					51,818		51,818
Capital expenditures for in-service properties	8,524	569	4,346	208	1,398	15,045		15,045
Total additions	\$ 60,345	\$ 777	\$ 4,359	\$ 454	\$ 6,993	\$ 72,928	\$	\$ 72,928
Investment balance in equity method investees	\$ 8,738	\$	\$ 4,324	\$	\$	\$ 13,062	\$	\$ 13,062
Assets	\$ 661,286	\$ 435,479	\$ 699,460	\$ 280,328	\$ 281,022	\$ 2,357,575	\$ 33,235	\$ 2,390,810

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**For the Three Months Ended March 31, 2004**  
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	<b>Mid- Atlantic</b>	<b>Midwest</b>	<b>Southwest</b>	<b>Northern California</b>	<b>Southern California</b>	<b>Total Segments</b>	<b>Corporate Not Allocable To Segments</b>	<b>Consolidated Total</b>
Revenues	\$ 24,194	\$ 14,156	\$ 30,427	\$ 8,448	\$ 9,803	\$ 87,028	\$ 758	\$ 87,786
Income from continuing operations	\$ 10,281	\$ 3,475	\$ 11,949	\$ 3,904	\$ 3,058	\$ 32,667	\$(18,898)	\$ 13,769
Additions to long-lived assets:								
Development/redevelopment	\$	\$ 1,255	\$ 162	\$	\$ 98	\$ 1,515	\$	\$ 1,515
Capital expenditures for in-service properties	1,604	3,228	3,625	1,295	1,002	10,754		10,754
Total additions	\$ 1,604	\$ 4,483	\$ 3,787	\$ 1,295	\$ 1,100	\$ 12,269	\$	\$ 12,269
Investment balance in equity method investees	\$ 9,194	\$	\$ 3,973	\$	\$	\$ 13,167	\$	\$ 13,167
Assets	\$ 616,069	\$ 414,660	\$ 635,634	\$ 252,698	\$ 241,946	\$ 2,161,007	\$ 24,424	\$ 2,185,431

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**15. Recently Issued Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, a revision to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. The Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.

The Statement which focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

The Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

The Statement, which originally was to take effect the beginning of the first interim or annual reporting period that begins after June 15, 2005 for public entities that do not file as small business issuers, was amended on April 14, 2005. The Securities and Exchange Commission adopted a new rule to amend the compliance dates, which now allows companies to implement the statement at the beginning of their next fiscal year. The Statement will not have a material impact on our financial statements.

**16. Subsequent Events**

On May 2, 2005, our operating partnership completed a transaction in which we effectively acquired for \$103.2 million the remaining 75% interest in Tysons International Partners, a joint venture that prior to the transaction was owned 25% by our operating partnership and 75% by an unrelated third party. The joint venture, through its two wholly-owned subsidiaries ( subsidiaries ) owned two office properties totaling approximately 452,000 net rentable square feet in Tysons Corner Virginia. Pursuant to the purchase agreement, our operating partnership acquired from Tysons International Partners 100% of the subsidiaries thereby giving us 100% ownership of the two office properties. Tysons International Partners distributed the proceeds from the sale and immediately thereafter redeemed the 75% partner's interest in joint venture. As a consequence of the redemption, Tyson's International Partners terminated as a joint venture.

On May 3, 2005, Prentiss Office Investors, L.P. completed a five-year \$30.9 million loan, collateralized by two office buildings located in Herndon, Virginia. We may borrow an additional \$1.9 million over the next 24 months if certain conditions are met. The interest rate on the loan is 115 basis points over 30-day LIBOR and the monthly payments are interest only, with the principal balance due at its maturity on May 3, 2010. Proceeds from the loan were used to fund a pro rata capital distribution to the joint venture partners based on their ownership interest in Prentiss Office Investors, L.P. Our operating partnership used proceeds from the capital distribution to repay a portion of the outstanding borrowings under our revolving credit facility.



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The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto presented in this Form 10-Q. Historical results set forth in our consolidated financial statements should not be taken as an indication of our future operations.

**Overview**

We are a self-administered and self-managed Maryland REIT. We acquire, own, manage, lease, develop and build primarily office properties throughout the United States. We are self-administered in that we provide our own administrative services, such as accounting, tax and legal, internally through our own employees. We are self-managed in that we internally provide all the management and maintenance services that our properties require through employees, such as property managers, leasing professionals and engineers. We operate principally through our operating partnership, Prentiss Properties Acquisition Partners, L.P. and its subsidiaries, and two management service companies, Prentiss Properties Resources, Inc. and its subsidiaries and Prentiss Properties Management, L.P.

As of March 31, 2005, we owned interests in a diversified portfolio of 135 primarily suburban Class A office and suburban industrial properties as follows:

	<b>Number of Buildings</b>	<b>Net Rentable Square Feet<sup>(1)</sup></b> (in thousands)
Office properties	108	17,729
Industrial properties	27	2,203
Total	135	19,932

- (1) Includes 100% of the net rentable square feet of our consolidated wholly-owned and joint venture properties and 100% of our unconsolidated joint venture properties, which totaled 17.3 million, 989,000 and 1.6 million, respectively. Our pro rata share of the net rentable square feet totals 18.5 million, which includes 504,000 and 669,000 from consolidated and unconsolidated joint venture properties, respectively.

As an owner of real estate, the majority of our income and cash flow is derived from rental income received pursuant to tenant leases for space at our properties; and thus, our earnings would be negatively impacted by a deterioration of our rental income. One or more factors could result in a deterioration of rental income including (1) our failure to renew or execute new leases as current leases expire, (2) our failure to renew or execute new leases with rental terms at or above the terms of in-place leases, and (3) tenant defaults.

Our failure to renew or execute new leases as current leases expire or to execute new leases with rental terms at or above the terms of in-place leases is dependent on factors such as (1) the local economic climate, which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors and (2) local real estate conditions, such as oversupply of office and industrial space or competition within the market.

On April 22, 2004, we acquired from 7-Eleven, Inc., an unrelated third party, the Cityplace Center property, a 42-story, 1.3 million net rentable square foot class AA office building in Dallas, Texas. Under the terms of the purchase, 7-Eleven, Inc. executed a 504,351 square-foot lease at the property for a term of three years from the date of closing. 7-Eleven, Inc. has the option to extend the term of its lease an additional seven years by notifying us no later

than October 21, 2005. The acquisition price of the building totaled approximately \$124 million. In determining the amount we were willing to pay for property, we projected 7-Eleven's departure from the building at the end of the initial 3-year term. The operating partnership is obligated to fund an additional \$14.5 million if 7-Eleven, Inc. exercises its extension option.

Although 7-Eleven, Inc. announced to the public on April 20, 2005, that they do not intend to renew their lease at the property, they have not provided us with formal notification and as a result retain their rights under the purchase agreement to extend the lease in accordance with the conditions included therein.

Our industry's performance is generally predicated on a sustained pattern of job growth. In 2004, while the overall United States economy began to demonstrate economic growth, there were few indications that the economy was creating jobs at a pace sufficient to generate significant increases in demand for our office space. We continue to operate in a period of weak fundamentals, evidenced by relatively high vacancy and correspondingly lower rental rates.

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As a result of the recent weak economic climate, the office real estate markets have been materially impacted by higher vacancy rates. In 2003, vacancy rates appeared to peak in many of our markets and some positive net absorption of space started to occur. During 2004, all of our markets, with the exception of Downtown Chicago, experienced positive net absorption of space. In addition, the overall vacancy rates were down as compared to 2003. Although there are some signs of improvement in the economic climate, we do not expect any material improvement in the leasing conditions for the remainder of 2005. In the face of challenging market conditions, we have followed a disciplined approach to managing our operations. We are constantly reviewing our portfolio and the markets in which we operate to identify potential asset acquisitions, opportunities for development and where we believe significant value can be found, asset dispositions. At the direction of our board of trustees we conducted an analysis of our business strategy in our Midwest region during the first quarter of 2005. As a result of such analysis we have decided to place all of our Chicago assets on the market to be sold. Holliday Fenoglio Fowler, L.P. has been retained as broker and will be marketing the properties for sale. Our Chicago portfolio consists of 16 office properties containing 2.2 million of owned square feet and 4 industrial properties containing 700,000 owned square feet. Additionally we have one office property in Detroit, Michigan, a 100% owned property containing 242,000 square feet, which is also being marketed for sale in this transaction.

The occupancy in our portfolio of operating properties slightly increased in the first quarter of 2005 to 89% at March 31, 2005 compared to 88% at December 31, 2004. Market rental rates have declined in each of our markets from peak levels and there may be additional declines throughout the remainder of 2005. Rental rates on our office space that were re-leased during the first quarter 2005, 2004 and 2003 decreased an average of 3%, 8% and 9%, respectively, in comparison to rates that were in effect under expiring leases.

Our organization consists of a corporate office located in Dallas, Texas and five regional offices each of which operates under the guidance of a member of our senior management team. The following table presents first quarter 2005 regional revenues and the 10 markets in which our properties are located, with the first market being the location of each regional office:

<b>Region</b>	<b>Revenues</b> (in thousands)	<b>Market</b>
Mid-Atlantic	\$ 26,570	Metropolitan Washington D.C.
Midwest	16,740	Chicago, Suburban Detroit
Southwest	32,085	Dallas/Fort Worth, Austin, Denver
Northern California	12,240	Oakland, Silicon Valley
Southern California	9,927	San Diego, Los Angeles
Total	\$ 97,562	

In addition to the \$97.6 million of regional revenues, during the three months ended March 31, 2005, we recognized \$527,000 of revenue consisting of reimbursements from employees for their share of health care related costs of \$147,000, interest income of \$91,000 representing the portion not allocated to our regions and the balance of \$289,000 relates primarily to income derived from services performed for third parties not allocated to our regions.

At March 31, 2005, we had 17.8 million square feet of in-place leases representing 89% of the 19.9 million net rentable square feet of both our consolidated and unconsolidated properties. Our leases range in term from 1 month to 20 years with an average term of 5 to 7 years. The following table presents, by region, the expiration of our 17.8 million square feet of in-place leases.

Square Feet (in thousands)	Mid-Atlantic	Midwest	Southwest	Northern California	Southern California	Total	
2005	237	53	298	84	518	1,190	6.7%
2006	674	434	812	100	295	2,315	13.0%
2007	663	166	1,054	231	599	2,713	15.2%
2008	309	475	461	204	278	1,827	10.3%
2009	576	226	859	188	403	2,252	12.6%
Thereafter	1,707	1,426	3,318	742	340	7,533	42.2%
	4,166	2,880	6,802	1,549	2,433	17,830	100.0%

If one or more tenants fail to pay their rent due to bankruptcy, weakened financial condition or otherwise, our income, cash flow and ability to make distributions would be negatively impacted. At any time, a tenant may seek the protection of the bankruptcy laws, which could result in delays in rental payments or in the rejection and termination of such tenant leases.



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**First Quarter 2005 Transactions**

*Real Estate Transactions*

On February 14, 2005, Prentiss Office Investors, L.P., which is owned 51% by our operating partnership and its affiliates and 49% by Stichting Pensioenfond ABP, acquired from an unrelated third party, a two building office complex with approximately 197,000 net rentable square feet. The properties are located in Herndon, Virginia and were acquired for gross proceeds of \$51.8 million. Each partner contributed their pro rata share of the purchase price to Prentiss Office Investors, L.P. for the acquisition. Amounts contributed from the operating partnership were funded with proceeds from our revolving credit facility.

*Other Transactions*

On January 13, 2005, Prentiss Office Investors, L.P. completed a five-year interest rate swap agreement in a notional amount of \$20.0 million. The interest rate swap effectively locks 30-day LIBOR at 4.00% on \$20.0 million of our variable rate borrowings. The interest rate swap matures February 1, 2010.

During the first quarter 2005, we formed Prentiss Properties Capital Trust I, a Delaware statutory trust, established to issue \$26,250,000 and \$25,000,000 of trust preferred equity securities to Taberna Preferred Funding I, Ltd. and Merrill Lynch International, respectively in a private placement pursuant to an applicable exemption from registration. Prentiss Properties Limited, Inc., a wholly-owned affiliate of our operating partnership acquired for \$1.6 million a residual interest (common securities), of Prentiss Properties Capital Trust I, representing 3% of the overall equity of the trust. The preferred equity securities will mature on March 30, 2035, but may be redeemed by Prentiss Properties Capital Trust I beginning on March 30, 2010. The holders of both the preferred equity and common securities will receive quarterly distributions from Prentiss Properties Capital Trust I, at a variable rate equal to LIBOR plus 1.25%. Distributions will be cumulative and will accrue from the date of original issuance but may be deferred for up to 20 consecutive quarterly periods.

Prentiss Properties Capital Trust I used the proceeds from the issuance of the preferred and common securities to acquire \$52.8 million of junior subordinated notes from our operating partnership pursuant to an indenture agreement.

The notes will mature on March 30, 2035, but may be redeemed at our option, in whole or in part, beginning on March 30, 2010 in accordance with the provisions of the indenture agreement. The notes bear interest at a variable rate equal to LIBOR plus 1.25%. Interest is cumulative and will accrue from the date of original issuance but may be deferred by us for up to 20 consecutive quarterly periods.

The trust is a variable interest entity under paragraph 5(b)(1) of FIN 46, because the equity investors at risk hold no substantial decision-making rights. Prentiss Properties Limited, Inc.'s investment is financed directly by our operating partnership and therefore it is not considered at risk. Because Prentiss Properties Limited, Inc. lacks a significant variable interest in the trust, the accounts of the trust are not consolidated with and into Prentiss Properties Limited, Inc. and therefore are not consolidated with and into our operating partnership. Prentiss Properties Limited, Inc.'s investment in the trust is presented on our consolidated balance sheet as an investment in joint ventures and unconsolidated subsidiaries and is accounted for using the cost method of accounting.

The proceeds received by the operating partnership in exchange for the notes were used to repay a portion of the outstanding borrowings under our revolving credit facility. The notes are presented on our consolidated balance sheet in the line item mortgages and notes payable.

On March 22, 2005, we completed a ten-year, \$114.2 million loan collateralized by our Burnett Plaza property, a 1,025,000 net rentable square foot office building in Fort Worth, Texas. The interest rate is fixed at 5.02% and the monthly payments are interest only until April 1, 2008 at which time it converts to amortizing, on a 30-year amortization schedule, until the maturity date of April 1, 2015. The proceeds were used to repay a portion of the outstanding borrowings under our revolving credit facility.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements. Our consolidated financial statements include the accounts of Prentiss Properties Trust, our operating partnership and our other consolidated subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from our estimates.

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The significant accounting policies used in the preparation of our consolidated financial statements are fully described in Note (2) to our audited consolidated financial statements for the year ended December 31, 2004, included in our Form 10-K filed on March 15, 2005. However, some of our significant accounting estimates are considered critical accounting estimates because the estimate requires our management to make assumptions about matters that are highly uncertain at the time the estimate is made and different estimates that reasonably could have been used in the current period, or changes in the estimates that are reasonably likely to occur from period to period, would have a material impact on our financial condition, changes in financial condition or results of operations. We consider our critical accounting policies and estimates to be those used in the determination of the reported amounts and disclosure related to the following:

- (1) Impairment of long-lived assets and the long-lived assets to be disposed of;
- (2) Allowance for doubtful accounts;
- (3) Depreciable lives applied to real estate assets and improvements to real estate assets;
- (4) Initial recognition, measurement and allocation of the cost of real estate acquired; and
- (5) Fair value of derivative instruments.

*Impairment of long-lived assets and long-lived assets to be disposed of*

Real estate, leasehold improvements and land holdings are classified as long-lived assets held for sale or long-lived assets to be held and used. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we record assets held for sale at the lower of the carrying amount or fair value, less cost to sell. With respect to assets classified as held and used, we periodically review these assets to determine whether our carrying amount will be recovered. All of our long-lived assets were classified as held and used at March 31, 2005. Our operating real estate, which comprises the majority of our long-lived assets, had a carrying amount of \$1.9 billion at March 31, 2005. A long-lived asset is considered impaired if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Upon impairment, we would recognize an impairment loss to reduce the carrying value of the long-lived asset to our estimate of its fair value. Our estimate of fair value and cash flows to be generated from our properties requires us to make assumptions related to future occupancy of our properties, future rental rates, tenant concessions, operating expenditures, property taxes, capital improvements, the ability of our tenants to perform pursuant to their lease obligations, the holding period of our properties and the proceeds to be generated from the eventual sale of our properties. If one or more of our assumptions proves incorrect or if our assumptions change, the recognition of an impairment loss on one or more properties may be necessary in the future. The recognition of an impairment loss would negatively impact earnings. We did not recognize any impairment losses during the three months ended March 31, 2005.

*Allowance for doubtful accounts*

Accounts receivable are reduced by an allowance for amounts that we estimate to be uncollectible. Our receivable balance is comprised primarily of accrued rental rate increases to be received over the life of in-place leases as well as rents and operating cost recoveries due from tenants. We regularly evaluate the adequacy of our allowance for doubtful accounts considering such factors as credit quality of our tenants, delinquency of payment, historical trends and current economic conditions. At March 31, 2005, we had total receivables of \$62.3 million and an allowance for doubtful accounts of \$6.4 million, resulting in a net receivable balance of \$55.9 million. Of the \$62.3 million in total receivables, \$53.3 million represents accrued rental rate increases to be received over the life of in-place leases. It is our policy to reserve all outstanding receivables that are 90-days past due along with a portion of the remaining

receivable balance that we feel is uncollectible based on our evaluation of the outstanding receivable balance. In addition, we increase our allowance for doubtful accounts for accrued rental rate increases, if we determine such future rent is uncollectible. Actual results may differ from these estimates under different assumptions or conditions. If our assumptions, regarding the collectibility of accounts receivable, prove incorrect, we may experience write-offs in excess of our allowance for doubtful accounts which would negatively impact earnings. The table below presents the net increase/(decrease) to our allowance for doubtful accounts during the periods, amounts written-off as uncollectible during the periods and our allowance for doubtful accounts at March 31, 2005 and 2004.

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Increase/(decrease) in allowance for doubtful accounts	\$ 145	\$ (1,028)
Amounts written off during the period	\$ (383)	\$ (1,915)
Allowance for doubtful accounts at period end	\$ 6,351	\$ 8,958

**Table of Contents***Depreciable lives applied to real estate assets and improvements to real estate assets*

Depreciation on buildings and improvements is provided under the straight-line method over an estimated useful life of 30 to 40 years for office buildings and 25 to 30 years for industrial buildings. Significant betterments made to our real estate assets are capitalized and depreciated over the estimated useful life of the betterment. If our estimate of useful lives proves to be materially incorrect, the depreciation and amortization expense that we currently recognize would also prove to be materially incorrect. A change in our estimate of useful lives would therefore result in either an increase or decrease in depreciation and amortization expense and thus, a decrease or increase in earnings. The table below presents real estate related depreciation and amortization expense, including real estate depreciation and amortization expense included in income from continuing operations as well as discontinued operations, for the three months ended March 31, 2005 and 2004:

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Real estate depreciation and amortization from continuing operations	\$ 24,407	\$ 21,155
Real estate depreciation and amortization from discontinued operations	\$	\$ 1,827

*Initial recognition, measurement and allocation of the cost of real estate acquired*

We allocate the purchase price of properties acquired to tangible assets consisting of land and building and improvements, and identified intangible assets and liabilities generally consisting of (i) above- and below-market leases, (ii) in-place leases and (iii) tenant relationships. We allocate the purchase price to the assets acquired and liabilities assumed based on their fair values in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. These fair values are derived as follows:

Amounts allocated to land are derived from (1) comparable sales of raw land, (2) floor area ratio (FAR) specifics of the land as compared to other developed properties (average land cost per FAR) and (3) our other local market knowledge.

Amounts allocated to buildings and improvements are calculated and recorded as if the building was vacant upon purchase. We use estimated cash flow projections and apply discount and capitalization rates based on market knowledge. Depreciation is computed using the straight-line method over the estimated life of 30 to 40 years for office buildings and 25 to 30 years for industrial buildings.

We record above-market and below-market in-place lease values for acquired properties based on the present value (using a market interest rate which reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease for above-market leases and the initial term plus the term of the fixed rate renewal option, if any for below-market leases. We perform this analysis on a lease (tenant) by lease (tenant) basis. The capitalized above-market lease values are amortized as a reduction to rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term plus the term of the fixed rate renewal option, if any, of the respective leases.

Other intangible assets, in-place leases and tenant relationships, are calculated based on an evaluation of specific characteristics of each tenant's lease. Our estimates of fair value for other intangibles includes an estimate of carrying

costs during the expected lease-up periods for the respective spaces considering current market conditions and the costs to execute similar leases. In estimating the carrying costs that would have otherwise been incurred had the leases not been in place, we include such items as real estate taxes, insurance and other operating expenses as well as lost rental revenue during the expected lease-up period based on current market conditions. Costs to execute similar leases include leasing commissions, legal and other related costs. The value of in-place leases is amortized to expense over the remaining non-cancelable term of the respective leases. Should a tenant terminate its lease, the unamortized portion of the in-place lease value would be charged to expense in current period earnings.

Based on our estimates of the fair value of the components of each real estate property acquired between January 1, 2005 and March 31, 2005, we allocated the purchase price as follows:

(in thousands)	<b>Three Months Ended March 31, 2005</b>	
Land	\$	8,458
Buildings and improvements	\$	36,110
Tenant improvements and leasing commissions	\$	3,520
Above/(below) market lease value	\$	(140)
In-place lease value at market	\$	3,870

**Table of Contents***Fair value of derivative instruments*

In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, beginning January 1, 2001, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability of expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized currently in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps as part of our cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without the exchange of the underlying principal amount. During the three months ended March 31, 2005, such derivatives were used to hedge the variable cash flows associated with a portion of our variable-rate debt.

As of March 31, 2005, we did not have any derivatives designated as fair value hedges. Additionally, we do not use derivatives for trading or speculative purposes, and currently, we do not have any derivatives that are not designated as hedges.

To determine the fair value of our derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost, and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized. Future cash inflows or outflows from our derivative instruments depend upon future borrowing rates. If assumptions about future borrowing rates prove to be materially incorrect, the recorded value of these agreements could also prove to be materially incorrect. Because we use the derivative instruments to hedge our exposure to variable interest rates, thus effectively fixing a portion of our variable interest rates, changes in future borrowing rates could result in our interest expense being either higher or lower than might otherwise have been incurred on our variable-rate borrowings had the rates not been fixed. The table below presents the amount by which cash payments made under our interest rate swap agreements exceeded cash receipts from our agreements during the three month period ended March 31, 2005 and 2004. The table also presents the estimated fair value of our in-place swap agreements as of March 31, 2005 and 2004.

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>

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Net cash paid under our interest rate swap agreements	\$	1,486	\$	2,579
Fair value of interest rate swaps at period end	\$	6,020	\$	(10,001)



**Table of Contents****Results of Operations**

*Comparison of the three months ended March 31, 2005 to the three months ended March 31, 2004.*

The table below presents our consolidated statements of income for the three months ended March 31, 2005 and 2004:

<b>Consolidated Statements of Income</b> (in thousands)	<b>Three Months Ended</b>	
	<b>2005</b>	<b>2004</b>
Revenues:		
Rental income	\$ 95,039	\$ 84,298
Service business and other income	3,050	3,488
	98,089	87,786
Operating expenses:		
Property operating and maintenance	26,045	21,377
Real estate taxes	10,859	9,336
General and administrative and personnel costs	2,883	2,585
Expenses of service business	2,655	1,649
Depreciation and amortization	24,559	21,284
	67,001	56,231
Other expenses:		
Interest expense	17,875	16,199
Amortization of deferred financing costs	718	565
	18,593	16,764
Income from continuing operations before equity in income of unconsolidated joint ventures and subsidiaries and minority interests	12,495	14,791
Equity in income of unconsolidated joint ventures and subsidiaries	698	578
Minority interests	(505)	(1,600)
Income from continuing operations	12,688	13,769
Discontinued operations:		
Income from discontinued operations		1,978
Gain from disposition of discontinued operations	15	
Minority interests related to discontinued operations		(64)

	15	1,914
Income before gain on sale of an interest in a real estate partnership	12,703	15,683
Gain on sale of an interest in a real estate partnership		1,316
Net income	\$ 12,703	\$ 16,999
Preferred dividends	(2,113)	(3,713)
Net income applicable to common shareholders	\$ 10,590	\$ 13,286

Included below is a discussion of the significant events or transactions that have impacted our results of operations when comparing the three months ended March 31, 2005 to the three months ended March 31, 2004.

*Acquisition of Real Estate.* Acquisitions are a key component of our external growth strategy. We selectively pursue acquisitions in our core markets when long-term yields make acquisitions attractive. Between January 1, 2004 and March 31, 2005, we acquired ten office properties containing in the aggregate approximately 2.5 million net rentable square feet as presented below:

Acquired Properties	Segment	Market	Month of Acquisition	Number of Buildings	Net Rentable Square Feet	Acquisition Price
					(1) (in thousands)	(in millions)
Cityplace Center	Southwest	Dallas/Ft. Worth	April 2004	1	1,296	\$ 123.3
The Bluffs <sup>(2)</sup>	Southern Calif.	San Diego	May 2004	1	69	17.7
5500 Great America Parkway	Northern Calif.	Silicon Valley	May 2004	3	306	34.8
Lakeside Point I & II <sup>(2)</sup>	Midwest	Chicago	Oct. 2004	2	198	32.6
2101 Webster	Northern Calif.	Oakland	Oct. 2004	1	459	65.7
President s Plaza <sup>(2)</sup>	Mid-Atlantic	Metro Wash., DC	Feb. 2005	2	197	51.8
				10	2,525	\$ 325.9

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- (1) Net rentable square feet defines the area of a property for which a tenant is required to pay rent, which includes the actual rentable area plus a portion of the common areas of the property allocated to a tenant.
- (2) Acquisitions were acquired by Prentiss Office Investors, L.P. The net rentable square feet and acquisition price is presented at 100%. Each partner contributed their pro rata share of the purchase price of each property to Prentiss Office Investors, L.P. prior to acquisition.

*Real Estate Dispositions.* During the period January 1, 2004 through March 31, 2005, we disposed of eight office properties containing approximately 1.2 million net rentable square feet and four industrial properties containing approximately 91,000 net rentable square feet. Six properties, containing 566,000 net rentable square feet, representing our only properties in the Sacramento area, a market within our Northern California region, were sold on May 20, 2004. Four industrial properties, containing 91,000 net rentable square feet in San Diego, were sold on July 23, 2004. One office property, containing 466,000 net rentable square feet, representing our only property in the Houston area, a market within our Southwest region, was sold on August 23, 2004. One office property, containing 136,000 net rentable square feet in the Chicago area, was sold on November 19, 2004.

*Other Significant Real Estate Transactions.* On January 22, 2004, Prentiss Office Investors, L.P. was established to acquire office properties in our core markets of Washington D.C./Northern Virginia, Chicago, Dallas/Ft. Worth, Northern California and San Diego/Orange County. The partnership was initially wholly owned by the operating partnership and its affiliates and was seeded by the transfer of several properties the company acquired in 2003.

Pursuant to a joint venture agreement, effective February 1, 2004, Stichting Pensioenfonds ABP, a Netherlands based pension fund and unrelated third party, acquired a 49% limited partnership interest in Prentiss Office Investors, L.P. for proceeds totaling \$68.9 million. As a result of the transaction, we recorded a gain on sale of \$1.3 million. The joint venture is consolidated with and into the accounts of the operating partnership. Proceeds from the transaction were used to repay a portion of the outstanding borrowings under our revolving credit facility.

The following is a discussion of the material changes in our consolidated statements of income and a discussion of the impact that the significant events or transactions, as described above, had on one or more line items of our consolidated statements of income when comparing the three months ended March 31, 2005 to the three months ended March 31, 2004.

*Rental Income.* Rental income increased \$10.7 million, or 12.7%. The real estate acquisitions resulted in increases of \$11.9 million. Our other properties experienced a decrease of \$1.2 million primarily due to a decrease in termination fee income of \$710,000 and a decrease in rental income relating primarily to decreased occupancy and rental rate declines for newly executed leases. Termination fees for the three months ended March 31, 2005 were \$2.7 million compared to \$3.4 million for the three months ended March 31, 2004.

*Service Business and Other Income.* Service business and other income decreased by \$438,000, or 12.6%, primarily due to a decrease in interest income resulting from the repayment of a note receivable on February 4, 2004 and the reduction of consulting fee income due to the completion of consulting contracts early in 2004.

*Property Operating and Maintenance.* Property operating and maintenance cost increased by \$4.7 million, or 21.8%. The real estate acquisitions resulted in increases of \$4.1 million. Property operating and maintenance expenses related to our other properties increased by \$536,000. This increase was due to increased utility and other operating costs.

*Real Estate Taxes.* Real estate taxes increased \$1.5 million, or 16.3%. The real estate acquisitions resulted in increases of \$1.5 million. Real estate taxes related to our other properties increased \$54,000.

*General and Administrative and Personnel Costs.* General and administrative and personnel cost increased by \$298,000, or 11.5%. The increase in general and administrative and personnel costs was mainly due to compensation related expenses, including bonus compensation and our long-term incentive plans, offset by a decrease in amounts due participants under our deferred compensation plans.

*Expense of Service Business.* Expenses of service business increased \$1.0 million, or 61%, primarily due to an increase in compensation related expenses.

*Depreciation and Amortization.* Depreciation and amortization increased \$3.3 million, or 15.4%. The real estate acquisitions coming on-line resulted in increases of \$4.1 million. Other properties decreased by \$842,000 which is attributable to increased amortization in the three months ended March 31, 2004 compared to March 31, 2005, which was the result of the acceleration of depreciation and amortization of certain tenant related improvements and deferred leasing charges due to early lease terminations.

*Interest Expense.* Interest expense increased by \$1.7 million, or 10.3%, primarily as a result of an increase in weighted average borrowings outstanding for the three months ended March 31, 2005 compared with the three months ended March 31, 2004. The increase was partially offset by a decrease in the weighted average interest rate paid on outstanding borrowings from 6.55% for the

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three months ended March 31, 2004 to 5.95% for the three months ended March 31, 2005, and an increase of \$334,000 in capitalized interest resulting from an increase in development activity.

*Minority Interests.* Minority interests decreased by \$1.1 million, or 68.4%, primarily due to a decrease in the proportionate share of net income attributable to the Series B Cumulative Redeemable Perpetual Preferred unitholders as a result of the repurchase of these units on February 24, 2004.

*Discontinued Operations.* Discontinued operations decreased by \$1.9 million, or 99.2% due to the disposition of properties recorded as discontinued operations during the three months ended March 31, 2004. The properties included are the properties discussed in the real estate dispositions section above. No properties were sold during the three months ended March 31, 2005.

*Gain on sale of a Partnership Interest.* Gain on sale of a partnership interest decreased by \$1.3 million. During the three months ended March 31, 2004, we recognized a gain due to selling an interest in a real estate partnership. No properties were sold during the three months ended March 31, 2005.

## **Liquidity and Capital Resources**

Cash and cash equivalents were \$10.8 million and \$8.6 million at March 31, 2005 and December 31, 2004, respectively. The increase in cash and cash equivalents is a result of net cash provided by operating and financing activities exceeding net cash used in investing activities for the three months ended March 31, 2005.

Cash flows provided by operating activities totaled \$22.9 million for the three months ended March 31, 2005 compared to \$22.3 million for the three months ended March 31, 2004. The change in cash flows from operating activities is attributable to (1) the factors discussed in our analysis of results of operations for the three months ended March 31, 2005 compared to March 31, 2004 and (2) the timing of receipt of revenues and payment of expenses which is evidenced by cash outflows of \$16.4 million for the three months ended March 31, 2005 compared to \$20.3 million for the three months ended March 31, 2004 related to the changes in assets and liabilities.

Net cash used in investing activities totaled \$75.1 million for the three months ended March 31, 2005 compared to \$65.9 million in net cash generated from investing activities for the three months ended March 31, 2004. The increase in cash used in investing activities of \$141.0 million is due primarily to decreases of \$69.3 million of cash generated from the sale of a 49% interest in Prentiss Office Investors, L.P. and \$9.5 million in cash generated from the repayments of certain notes receivable, and increases of \$51.4 million in cash used to acquire real estate assets, \$4.6 million in cash used in development and redevelopment of real estate, \$4.3 million in cash used for capital expenditures related to in-service properties, and \$1.6 million in cash used to fund an investment in an unconsolidated subsidiary.

Net cash generated from financing activities totaled \$54.4 million for the three months ended March 31, 2005 compared to net cash used of \$82.9 million for the three months ended March 31, 2004. The increase in net cash generated from financing activities of \$137.3 million is due primarily to a decrease of \$105.0 million in cash used for the redemption of preferred units, a decrease in distributions of \$1.8 million, a decrease of \$891,000 for the repurchase of operating partnership units, an increase in net borrowings of \$51.3 million, an increase in capital contributions from minority interest partners in consolidated joint ventures of \$24.8 million, offset by a decrease in cash generated from the sale of common shares of \$46.5 million.

Net cash flow from operations represents the primary source of liquidity to fund distributions, debt service, capital improvements and non-revenue enhancing tenant improvements. We expect that our revolving credit facility will provide for funding of working capital and revenue enhancing tenant improvements, unanticipated cash needs as well

as acquisitions and development costs. Our principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements and the minimum distributions required to maintain our REIT qualification under the Internal Revenue Code.

Our net cash flow from operations is generally derived from rental revenues and operating expense reimbursements from tenants and, to a limited extent, from fees generated by our office and industrial real estate management service business. Our net cash flow from operations is therefore dependent upon the occupancy level of our properties, the collectibility of rent from our tenants, the level of operating and other expenses, and other factors. Material changes in these factors may adversely affect our net cash flow from operations. Such changes, in turn, would adversely affect our ability to fund distributions, debt service, capital improvements and non-revenue enhancing tenant improvements. In addition, a material adverse change in our net cash flow from operations may affect the financial performance covenants under our revolving credit facility. If we fail to meet any of our financial performance covenants, our revolving credit facility may become unavailable to us, or the interest charged on the revolving credit facility may increase. Either of these circumstances could adversely affect our ability to fund working capital and revenue enhancing tenant improvements, unanticipated cash needs, acquisitions and development costs.

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In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income, excluding capital gains. We expect to make distributions to our shareholders primarily based on our cash flow from operations distributed by our operating partnership. We anticipate that our short-term liquidity needs will be fully funded from cash flows provided by operating activities and, when necessary to fund shortfalls resulting from the timing of collections of accounts receivable in the ordinary course of business, from our revolving credit facility. In the event that our cash flow needs exceed cash flows provided by operating activities, we may be forced to incur additional debt or sell real estate properties to fund such cash flow needs.

We expect to meet our long-term liquidity requirements for the funding of activities, such as development, real estate acquisitions, scheduled debt maturities, major renovations, expansions and other revenue enhancing capital improvements through long-term secured and unsecured indebtedness and through the issuance of additional debt and equity securities. We also intend to use proceeds from our revolving credit facility to fund real estate acquisitions, development, redevelopment, expansions and capital improvements on an interim basis.

*Debt Financing*

As of March 31, 2005, we had consolidated outstanding total indebtedness, of approximately \$1.25 billion. The amount of indebtedness that we may incur, and the policies with respect thereto, are not limited by our declaration of trust and bylaws, and are solely within the discretion of our board of trustees, limited only by various financial covenants in our credit agreements.

Approximately \$690.9 million, or 55.3% of our outstanding consolidated debt was subject to fixed rates with a weighted average interest rate of 6.98% at March 31, 2005. Of the remaining \$558.2 million, or 44.7%, representing our variable rate debt, \$415.0 million was effectively locked at March 31, 2005 at an interest rate (before the spread over LIBOR) of 3.88% through our interest rate swap agreements. At March 31, 2005, we had variable rate debt of \$143.2 million, which was not fixed through interest rate swap agreements.

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The following table sets forth our mortgages and notes payable, including our unconsolidated joint venture debt as of March 31, 2005:

Borrower/Description Consolidated Entities	Current Balance (000 s)	Amortization	Interest Rate	Maturity
<i>Burnett Plaza Associates</i>				
Burnett Plaza <i>PL Properties Associates, L.P.</i>	\$ 114,200	30 yr	5.02%	April 1, 2015
Park West C2 <i>Prentiss Properties Acquisition Partners, L.P.</i>	32,784	30 yr	6.63%	November 10, 2010
2101 Webster Highland Court Plaza I & II	46,284 4,319 6,811	1 yr 25 yr 18 yr	3.70% 7.27% 7.75%	November 1, 2005 April 1, 2006 January 1, 2007
Revolving Credit Facility	171,500	None	LIBOR + 1.250%	February 19, 2007
Collateralized Term Loan <sup>(1)</sup>	30,000	None	LIBOR + 1.150%	September 30, 2007
Unsecured Term Loan EuroHypo I	100,000	None	LIBOR + 1.250%	May 22, 2008
Unsecured Term Loan Commerz 7101 Wisconsin Avenue	75,000 20,018	None 30 yr	1.250% 7.25%	March 15, 2009 April 1, 2009
Unsecured Term Loan EuroHypo II The Ordway	13,690 47,283	30 yr 30 yr	7.46% 7.95%	July 15, 2009 August 1, 2010
World Savings Center	28,115	30 yr	7.91%	November 1, 2010
One O Hare Centre 3130 Fairview Park Drive	38,950 21,841	30 yr 30 yr	6.80% 7.00%	January 10, 2011 April 1, 2011
Research Office Center I-III Bannockburn Centre	43,277 25,760	28 yr 30 yr	7.64% 8.05%	October 1, 2011 June 1, 2012
Del Mar Loan	43,242	30 yr	7.41%	June 1, 2013
Prentiss Properties Capital Trust I Debenture <i>Prentiss Properties Corporetum, L.P.</i>	52,836	None	LIBOR + 1.250%	March 30, 2035
Corporetum Office Campus <i>Prentiss Properties Real Estate Fund I, L.P.</i>	24,257	30 yr	7.02%	February 1, 2009
PPREFI Portfolio Loan <sup>(2)</sup> <i>Prentiss Office Investors, L.P.</i> <sup>(3)</sup>	180,100	None	7.58%	February 26, 2007
The Bluffs	10,700	None		July 23, 2009



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				LIBOR + 1.300%	
Collateralized Term Loan	Mass Mutual <sup>(4)</sup>	85,000	None	LIBOR + 0.850%	August 1, 2009
Lakeside Point I & II		20,000	None	LIBOR + 1.100%	December 1, 2009
<i>Prentiss/Collins Del Mar Heights, LLC</i> <sup>(5)</sup>					
High Bluff Ridge Construction Loan		13,116	None	LIBOR + 1.400%	September 1, 2007
Total Consolidated Outstanding Debt		\$ 1,249,083			
Unconsolidated Entities					
<i>Broadmoor Austin Associates</i>					
Broadmoor Austin	<sup>(6)</sup>	\$ 130,224	16 yr	7.04%	April 10, 2011
<i>Tysons International Partners</i> <sup>(7)</sup>					
1676 International Drive		43,376	28 yr	7.63%	August 30, 2010
8260 Greensboro		15,528	28 yr	7.78%	August 30, 2010
Total Unconsolidated Outstanding Debt		\$ 189,128			
Total Debt		\$ 1,438,211			

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- (1) The Term Loan is collateralized by the following two properties: 8521 Leesburg Pike and the IBM Call Center.
- (2) The PPREFI Portfolio Loan is collateralized by the following 36 properties: the Los Angeles industrial properties (18 properties), the Chicago industrial properties (four properties), the Cottonwood Office Center (three properties), Park West E1 and E2 (two properties), One Northwestern Plaza, 3141 Fairview Park Drive, 13825 Sunrise Valley Drive, O Hare Plaza II, 1717 Deerfield Road, 2411 Dulles Corner Road, 4401 Fair Lakes Court, the WestPoint Office Building and the PacifiCare Building.
- (3) Our operating partnership owns a 51% interest in Prentiss Office Investors, L.P. The accounts of Prentiss Office Investors, L.P. are consolidated with and into the accounts of the operating partnership. The amounts shown reflect 100% of the debt balance.
- (4) The Term Loan is collateralized by the following 9 properties: Camino West Corporate Park, Carlsbad Airport Plaza, La Place Court (2 properties), Pacific Ridge Corporate Centre (2 properties), Pacific View Plaza, Corporate Lakes III, and 2291 Wood Oak Drive.
- (5) Our operating partnership and its affiliates own a 70% interest in Prentiss/Collins Del Mar Heights, LLC. The accounts of Prentiss/Collins Del Mar Heights, LLC are consolidated with and into the accounts of the operating partnership. The amount shown reflects 100% of the debt balance.
- (6) We own a 50% non-controlling interest in the entity that owns the Broadmoor Austin properties, which interest is accounted for using the equity method of accounting. The amount shown reflects 100% of the non-recourse mortgage indebtedness collateralized by the properties.
- (7) As of March 31, 2005, we owned a 25% non-controlling interest in the entity that owns the 1676 International Drive and 8260 Greensboro properties, which interest is accounted for using the equity method of accounting. The amount shown reflects 100% of the non-recourse mortgage indebtedness collateralized by the properties.

The majority of our fixed rate secured debt contains prepayment provisions based on the greater of a yield maintenance penalty or 1.0% of the outstanding loan amount. The yield maintenance penalty essentially compensates the lender for the difference between the fixed rate under the loan and the yield that the lender would receive if the lender reinvested the prepaid loan balance in U.S. Treasury Securities with a similar maturity as the loan.

Under our loan agreements, we are required to satisfy various affirmative and negative covenants, including limitations on total indebtedness, total collateralized indebtedness and cash distributions, as well as obligations to maintain certain minimum tangible net worth and certain minimum interest coverage ratios. Our credit agreements limit total indebtedness to 55% of total assets and require a debt service coverage ratio of at least 2 to 1. Our credit agreements provide for a 30-day period to cure a default caused by our failure to punctually and properly perform, observe and comply with the covenants contained therein. The agreements also provide for an additional 75-day period if such failure is not capable of being cured within 30-days and we are diligently pursuing the cure thereof. We were in compliance with these covenants at March 31, 2005.

*Hedging Activities*

To manage interest rate risk, we may employ options, forwards, interest rate swaps, caps and floors or a combination thereof depending on the underlying interest rate exposure. We undertake a variety of borrowings: from revolving credit facilities, to medium- and long-term financings. To manage overall interest rate exposure, we use interest rate instruments, typically interest rate swaps, to convert a portion of our variable rate debt to fixed rate debt. Interest rate differentials that arise under these swap contracts are recognized as interest expense over the life of the contracts.

We may employ forwards or purchased options to hedge qualifying anticipated transactions. Gains and losses are deferred and recognized in net income in the same period that the anticipated transaction occurs, expires or is otherwise terminated. The following table summarizes the notional amounts and fair values of our derivative financial instruments at March 31, 2005. The notional amount provides an indication of the extent of our involvement in these instruments as of the balance sheet date, but does not represent exposure to credit, interest rate or market risks.

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<b>Notional Amount</b>	<b>Swap Rate Paid (Fixed)</b>	<b>Swap Rate Received (Variable) at March 31, 2005</b>	<b>Swap Maturity</b>	<b>Fair Value (in thousands)</b>
\$25 million	4.345%	2.87%	July 2005	\$ (89)
\$15 million	4.345%	2.87%	July 2005	(53)
\$20 million	5.985%	2.87%	March 2006	(432)
\$30 million	5.990%	2.87%	March 2006	(649)
\$50 million	2.270%	2.87%	August 2007	2,087
\$25 million	2.277%	2.87%	August 2007	1,040
\$70 million <sup>(1)</sup>	4.139%	2.87%	August 2008	348
\$30 million	3.857%	2.87%	September 2008	456
\$30 million	3.819%	2.87%	October 2008	494
\$20 million	3.819%	2.87%	October 2008	329
\$50 million	3.935%	2.87%	May 2009	858
\$30 million	3.443%	2.87%	October 2009	1,225
\$20 million <sup>(1)</sup>	4.000%	2.87%	February 2010	406
<b>Total</b>				<b>\$ 6,020</b>

<sup>(1)</sup> The interest rate swap agreement was executed by Prentiss Office Investors, L.P., a partnership which is 51% owned by our operating partnership.

The interest rate swaps effectively lock in our cost of funds at the swap rate paid (before the spread over LIBOR) on variable rate borrowings for principal amounts equal to the respective notional amounts above.

*Capital Improvements*

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. The majority of capital required relates to tenant-related capital expenditures and is dependent upon our leasing activity. Our leasing activity is a function of the percentage of our in-place leases expiring in current and future periods accompanied by our exposure to tenant defaults and our ability to increase the average occupancy of our portfolio. For the three months ended March 31, 2005 capital expenditures related to our in-service properties totaled \$15.0 million. We classify capital expenditures for in-service properties as non-incremental and incremental revenue-enhancing capital expenditures representing our estimate of recurring versus non-recurring capital requirements, respectively. Our non-incremental and incremental capital expenditures for the three months ended

March 31, 2005 totaled approximately \$10.5 million and \$4.5 million, respectively.

*Equity Financing*

During the three months ended March 31, 2005, we issued 126,026 common shares of beneficial interest, par value \$.01. The table below details the common shares issued during the period, common shares in treasury activity during the period and the common shares outstanding at March 31, 2005:

<b>Common shares outstanding at December 31, 2004</b>	44,981,888
Common shares issued:	
1996 Share Incentive Plan	110,250
Share options exercised	8,500
Conversion of operating partnership units	5,483
Dividend Reinvestment Plan	978
Trustees' Share Incentive Plan	815
	126,026
Common shares placed in treasury/issued from treasury:	
Common shares placed in treasury in connection with our Key Employee Share Option Plan	(8,954)
Common shares issued from treasury in connection with our Key Employee Share Option Plan	26,165
<b>Common shares outstanding at March 31, 2005</b>	45,125,125

**Table of Contents****Off-Balance Sheet Arrangements**

At March 31, 2005 we had the following real estate related off-balance sheet arrangements: (1) a non-controlling 50% interest in Broadmoor Austin Associates; and (2) a 25% non-controlling interest in Tysons International Partners.

Our investments in unconsolidated joint ventures represents less than .7% of our total assets as of March 31, 2005 and 2.2% of our cash flow from operations for the three months ended March 31, 2005. Our investments, however, do provide us with several benefits including increased market share, important customer relations and a possible capital source to fund future real estate projects.

Broadmoor Austin Associates and Tysons International Partners represent real estate joint ventures which own and operate office properties in Austin, Texas and Tysons Corner, Virginia, respectively. We act as managing venture partner and have the authority to conduct the business affairs of each joint venture, subject to approval and veto rights of the other venture partner. We account for our interest in these joint ventures using the equity method of accounting. In addition to our real estate related investments, at March 31, 2005, we held \$1,586,000 in common securities issued by Prentiss Properties Capital Trust I which we account for using the cost method of accounting.

The following information summarizes the financial position at March 31, 2005 for the investments in which we held an unconsolidated interest at March 31, 2005:

**Summary of Financial Position:**

(in thousands)	<b>Total Assets</b>	<b>Total Debt<sup>(1)</sup></b>	<b>Total Equity</b>	<b>Company s Investment</b>
Broadmoor Austin Associates	\$ 97,312	\$ 130,224	\$ (34,473)	\$ 4,324
Tysons International Partners	89,360	58,903	28,962	8,738
Other Investments				1,586
				\$ 14,648

<sup>(1)</sup> The mortgage debt, all of which is non-recourse, is collateralized by the individual real estate property or properties within each venture, the net book value of which totaled \$163.1 million at March 31, 2005. Our proportionate share of the non-recourse mortgage debt totaled \$79.8 million at March 31, 2005.

The following information summarizes the results of operations for the unconsolidated investments which impacted our results of operations for the three months ended March 31, 2005.

(in thousands)	<b>Total Revenue</b>	<b>Net Income</b>	<b>Company s Share of Net Income</b>
<b>Summary of Operations for the Three Months Ended March 31, 2005:</b>			
Broadmoor Austin Associates	\$ 5,646	\$ 1,373	\$ 686
Tysons International Partners	3,156	48	12
			\$ 698

In connection with the disposition of a real estate property in May 2001, we entered into a financial guarantee with a maximum future potential payment of \$1.4 million. The financial guarantee, provided to the third party purchaser, guaranteed payment of an amount not to exceed the \$1.4 million potential maximum if certain tenants, as defined in the purchase and sale agreement, fail to extend their leases beyond the maturities of their current in-place leases. An amount totaling \$1.0 million representing consideration to be paid in the event a certain tenant failed to extend its in-place lease was considered probable at the date of disposition and therefore, accrued during the year ended December 31, 2001. During the year ended December 31, 2003, we paid an amount totaling \$1.0 million to the third party purchaser as a result of the failure of the tenant to extend its in-place lease. See further discussion and table presented under the Contractual Obligations and Commercial Commitments section below.

### **Contractual Obligations and Commercial Commitments**

We have contractual obligations including mortgages and notes payable and ground lease obligations. The table below presents, as of March 31, 2005, our future scheduled principal repayments of our consolidated mortgages and notes payable and ground lease obligations of our consolidated properties:

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<b>Contractual Obligations</b> (in thousands)	<b>Total</b>	<b>Payments Due by Period</b>			<b>Thereafter</b>
		<b>2005</b>	<b>2006/2007</b>	<b>2008/2009</b>	
Mortgages and notes payable	\$ 1,249,083	\$ 50,257	\$ 416,502	\$ 358,858	\$ 423,466
Capital lease obligations					
Ground leases	35,247	315	841	848	33,243
Unconditional purchase obligations					
Other long-term obligations					
<b>Total contractual cash obligations</b>	<b>\$ 1,284,330</b>	<b>\$ 50,572</b>	<b>\$ 417,343</b>	<b>\$ 359,706</b>	<b>\$ 456,709</b>

Our mortgages and notes payable consists of \$690.9 million and \$558.2 million of fixed rate and variable rate debt obligations, respectively. At March 31, 2005, our fixed rate debt obligations were subject to a weighted average interest rate of 6.98% and our variable rate debt obligations were subject to interest rates that range from 30-day LIBOR plus 85 basis points to 30-day LIBOR plus 140 basis points. \$415.0 million of our variable rate debt was effectively locked at an interest rate before the spread over LIBOR of 3.88% through our interest rate swap agreements. Interest payable under our mortgages and notes payable outstanding at March 31, 2005 are as follows:

(in thousands)	<b>Total</b>	<b>Payments Due by Period</b>			<b>Thereafter</b>
		<b>2005</b>	<b>2006/2007</b>	<b>2008/2009</b>	
Interest payable <sup>(1)</sup>	\$ 354,590	\$ 52,220	\$ 116,623	\$ 73,428	\$ 112,319

- (1) Interest payable under our variable rate loans is calculated using our variable interest rate at March 31, 2005 which is equal to 30-day LIBOR of 2.87% plus our spread over LIBOR which ranges between 85 basis points and 140 basis points.

As a condition of the purchase and sale and as security for our guarantee, as discussed under the Off-Balance Sheet Arrangements section above, we provided to the title company at closing, irrevocable letters of credit, totaling \$1.4 million, drawn on a financial institution and identifying the purchaser as beneficiary. One letter of credit totaling \$1.0 million expired in 2003. The balance of the remaining letter of credit totaled \$252,000 at March 31, 2005 and expires as follows:

<b>Other Commercial Commitments</b> (in thousands)	<b>Total Amounts Committed</b>	<b>Commitment Expiration by Period</b>			<b>Thereafter</b>
		<b>2005</b>	<b>2006/2007</b>	<b>2008/2009</b>	
Standby letters of credit	\$ 189	\$ 63	\$ 126	\$	\$

In June 2004, we began construction on High Bluff Ridge at Del Mar, an office development project with approximately 158,000 net rentable square feet located in Del Mar, California. The anticipated investment for this project totals \$48.1 million of which \$29.0 million has been incurred as of March 31, 2005. We have signed leases for approximately 100,000 square feet, or 63.0% of the project. We expect that the building will be complete and available for occupancy during the third quarter of 2005.

**Funds from Operations**



Funds from operations is a widely recognized measure of REIT operating performance. Funds from operations is a non-GAAP financial measure and, as defined by the National Association of Real Estate Investment Trusts, means net income, computed in accordance with GAAP excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures and subsidiaries. We believe that funds from operations is helpful to investors and our management as a measure of our operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, and extraordinary items, and, as a result, when compared period over period, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, providing perspective not immediately apparent from net income. In addition, our management believes that funds from operations provides useful information to the investment community about our financial performance when compared to other REITs since funds from operations is generally recognized as the industry standard for reporting the operating performance of REITs. However, our funds from operations may not be comparable to funds from operations reported by other REITs that do not define funds from operations exactly as we do. We believe that in order to facilitate a clear understanding of our operating results, funds from operations should be examined in conjunction with net income as presented in our consolidated financial statements and notes thereto included in this Form 10-Q. We believe that net income is the most directly comparable GAAP financial measure to funds from operations. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an

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indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. Funds from operations does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs that could materially impact our results of operations.

The following is a reconciliation of net income to funds from operations:

<b>Funds from operations</b> (in thousands)	<b>Three Months Ended</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 12,703	\$ 16,999
Adjustments:		
Real estate depreciation and amortization <sup>(1)</sup>	24,407	22,982
Minority interests <sup>(2)</sup>	312	496
Minority interests share of depreciation and amortization	(1,431)	(821)
Pro rata share of joint venture depreciation and amortization	747	736
Gain on sale of real estate and interests in real estate partnerships	(15)	(1,316)
Funds from operations	\$ 36,723	\$ 39,076

<sup>(1)</sup> Includes real estate depreciation and amortization included in continuing operations and real estate depreciation and amortization included in discontinued operations.

<sup>(2)</sup> Represents the minority interests applicable to the common unit holders of the operating partnership.

Funds from operations decreased by \$2.4 million for the three months ended March 31, 2005 from the three months ended March 31, 2004, as a result of factors discussed in the analysis of operating results.

**Recently Issued Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, a revision to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. The Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.

The Statement which focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

The Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

The Statement, which originally was to take effect the beginning of the first interim or annual reporting period that begins after June 15, 2005 for public entities that do not file as small business issuers, was amended on April 14, 2005. The Securities and Exchange Commission adopted a new rule to amend the compliance dates, which now allows companies to implement the statement at the beginning of their next fiscal year. The Statement will not have a material impact on our financial statements.

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**Application of and Changes in Law Regarding Ownership of Subsidiaries and Qualifications as a REIT**

For federal income tax purposes, we were organized and have operated in conformity with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ending December 31, 1996 and through the date hereof. The Internal Revenue Code sets forth various income, asset, ownership, and distribution tests with respect to which a REIT must comply in order to maintain its status as a REIT. Although the Internal Revenue Service, based upon its interpretation of the relevant judicial and administrative authorities, may take the position that a REIT has failed a particular qualification test, the facts and circumstances upon which such a determination would be based are controlled by the REIT. To the extent that a REIT does not comply with a particular test, the decision to take an action that would prevent compliance or to not take an action that would have allowed compliance will be directly within the control of the REIT. We are unaware of any instance in which a REIT has lost its qualification as a REIT due to the failure of one of the statutory qualification tests under the Internal Revenue Code. We believe that our current and proposed method of operation will enable us to continue to qualify as a REIT.

The REIT Modernization Act effective for 2001 and later years, contains several provisions affecting REITs. The REIT Modernization Act allows a subsidiary to perform services for tenants without disqualifying the rents received (as under prior law). These subsidiaries, called Taxable REIT Subsidiaries, are subject to taxation and are limited in the amount of debt and rental payments between the REIT and the Taxable REIT Subsidiaries. The fair market value of all Taxable REIT Subsidiaries securities cannot exceed 20% of the REIT's fair market value. Existing subsidiaries could be grandfathered in a one-time tax-free conversion. They are not subject to these limitations, unless engaging in a new line of business or increasing assets. If either of these events occurs, new restrictions on debt and rental payments will apply to these entities as well. The REIT Modernization Act also reduced the REIT taxable income distribution requirement from 95% to 90%.

**American Jobs Creation Act effect on REIT qualifications**

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004 (The Act), which includes amended REIT qualification provisions.

Under the Act, a REIT avoids disqualification for certain asset test violations if the disqualifying assets meet a de minimis threshold (the lesser of 1% of total REIT asset value at quarter end, or \$10 million). The REIT may correct the problem by disposing of the asset within six months after the quarter discovered or by increasing other assets to meet the test requirements.

If a disqualifying asset exceeds the de minimis threshold described above, the REIT will be deemed to satisfy its asset requirements if (1) REIT files a schedule with a description of each asset that caused the failure, in accordance with regulations; (2) the failure was due to reasonable cause and not willful neglect; (3) REIT disposes of the assets within six months after the discovery quarter, and (4) REIT pays a monetary penalty equal to the greater of \$50,000 or a tax computed by multiplying the highest corporate tax rate by the net income generated by the scheduled assets for the period beginning on the first date that the failure occurs and ending on the date when the REIT no longer fails to satisfy the asset test.

The Act also amends the 95% and 75% income test rules so that the REIT is generally not disqualified if the tests are failed. Upon a failure due to reasonable cause and not due to willful neglect, the REIT may file a schedule for the tax year, detailing each item of gross income (per IRS Regulations).

For REIT test violations other than income or asset tests, the Act adds a provision that allows a REIT to retain its REIT qualification so long as the violations are due to reasonable cause and not willful neglect, and the REIT pays a

penalty of \$50,000 per each failure.

**Inflation**

Most of the leases on our properties require tenants to pay increases in operating expenses, including common area charges and real estate taxes, thereby reducing the impact on us of the adverse effects of inflation. Leases also vary in term from one month to 20 years, further reducing the impact on us of the adverse effects of inflation.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our primary market risk is exposure to changes in interest rates as a result of our revolving credit facility and long-term debt. At March 31, 2005, we had total consolidated indebtedness outstanding of approximately \$1.25 billion. Our interest rate risk objective is to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, we manage our exposure to fluctuations in market interest rates for our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. In addition, we may enter into derivative financial instruments such as options, forwards, interest rate swaps, caps and floors to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. We do not enter into derivative or interest rate transactions for speculative purposes. Approximately 55.3% of our outstanding consolidated debt was subject to fixed rates with a weighted average interest rate of 6.98% at March 31, 2005. Of the remaining \$558.2 million, or 44.7%, representing our variable rate debt, \$415.0 million was effectively locked at March 31, 2005 at an interest rate (before the spread over LIBOR) of 3.88% through our interest rate swap agreements. We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations.

The following table provides information about our financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations outstanding at March 31, 2005, the table presents principal cash flows and related weighted average interest rates for consolidated debt outstanding during the periods. For interest rate swaps, the table presents notional amounts and weighted average interest rates for in-place swaps during the period. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on 30-day LIBOR as of March 31, 2005. The fair value of our fixed rate debt indicates the estimated principal amount of debt having similar debt service requirements, which could have been borrowed by us at March 31, 2005. The rate assumed in the fair value calculation of fixed rate debt is between 4.60% and 5.76%, representing our estimated borrowing rate for fixed rate debt instruments similar in term to those outstanding at March 31, 2005 (using U.S. Treasury Securities at March 31, 2005 plus a spread between 100 and 150 basis points). The fair value of our variable to fixed interest rate swaps indicates the estimated amount that we would receive had they been terminated at March 31, 2005. Exclusive of our interest rate swaps, if 30-day LIBOR increased 100 basis points, total interest expense would increase \$5.6 million.

(dollars in thousands)	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
<b>Liabilities</b>								
Long-Term Debt:								
Fixed Rate	\$ 50,257	\$ 9,704	\$ 192,182	\$ 7,094	\$ 61,064	\$ 370,630	\$ 690,931	\$ 732,744
Average Interest Rate	6.98%	7.08%	6.87%	6.81%	6.77%	6.10%		
Variable Rate	\$	\$	\$ 214,616	\$ 100,000	\$ 190,700	\$ 52,836	\$ 558,152	\$ 558,152
Average Interest Rate	4.11%	4.11%	4.08%	4.05%	4.02%	4.18%		
<b>Interest Rate Derivatives</b>								
Interest Rate Swaps:								
Variable to Fixed	\$ 40,000	\$ 50,000	\$ 75,000	\$ 150,000	\$ 80,000	\$ 20,000	\$ 415,000	\$ 6,020
Average Pay Rate	3.88%	3.59%	3.66%	3.88%	3.77%	4.00%		
Average Receive Rate	2.87%	2.87%	2.87%	2.87%	2.87%	2.87%		

**Item 4. Controls and Procedures**

As of March 31, 2005, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 15d-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

**Table of Contents****PART II  
OTHER INFORMATION****Item 1. Legal Proceedings**

We are not presently subject to any material litigation, other than ordinary routine litigation incidental to the business.

**Item 2. Changes in Securities and Use of Proceeds**

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
January 1, 2005 – January 31, 2005	1,231	\$ 36.82		997,200
February 1, 2005 – February 28, 2005		\$		
March 1, 2005 – March 31, 2005	7,723	\$ 35.61		
<b>Total</b>	<b>8,954</b>	<b>\$ 35.77</b>		<b>997,200</b>

(1) During January 2005, we purchased 1,231 of our common shares pursuant to our Key Employee Share Option Plan. In March 2005, we purchased 7,723 of our common shares pursuant to our Key Employee Share Option Plan.

(2) During 1998, our board of trustees authorized the repurchase of up to 2.0 million common shares in the open market or negotiated private transactions. On January 4, 2000, the board of trustees authorized a 1.5 million-share increase in the share repurchase program bringing the total authorization to 3.5 million common shares. On May 9, 2001, the board of trustees authorized an additional 1.0 million-share increase in the share repurchase program bringing the total authorization to 4.5 million shares. Since inception of the repurchase program, through March 31, 2005, we have purchased 3,502,800 common shares and pursuant to current authorization, we have the ability to repurchase an additional 997,200 in the future.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**



None

**Item 5. Other Information**

None

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**Item 6. Exhibits**

- 3.1 Amended and Restated Declaration of Trust of the Registrant (filed as Exhibit 3.1 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 3.2 Second Amended and Restated Bylaws of the Registrant. (filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q, filed on September 30, 2004, File No. 001-14516 and incorporated by reference herein)
- 3.3 Articles Supplementary, dated February 17, 1998, Classifying and Designating a Series of Preferred Shares of Beneficial Interest as Junior Participating Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest, Series B, and Fixing Distribution and Other Preferences and Rights of Such Shares (filed as an Exhibit to our Registration Statement on Form 8-A, filed on February 17, 1998, File No. 000-23813 and incorporated by reference herein).
- 3.4 Articles Supplementary, dated June 25, 1998, Classifying and Designating a Series of Preferred Shares of Beneficial Interest as Series B Cumulative Redeemable Perpetual Preferred Shares of Beneficial Interest and Fixing Distribution and Other Preferences and Rights of Such Shares (filed as Exhibit 3.5 to our Form 10-Q, filed on August 12, 1998, File No. 001-14516).
- 3.5 Articles Supplementary, dated March 20, 2001 (filed as Exhibit 3.6 to our Form 10-K, filed March 27, 2001, File No. 001-14516, and incorporated by reference herein).
- 3.6 Articles Supplementary Classifying and Designating a Series of Preferred Shares of Beneficial Interest as Series D Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest and Fixing Distribution and Other Preferences and Rights of such Shares, dated March 20, 2001 (filed as Exhibit 3.7 to our Form 10-K, filed March 27, 2001, File No. 001-14516, and incorporated by reference herein).
- 3.7 Articles Supplementary, dated January 4, 2002 (filed as Exhibit 3.7 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 3.8 Articles Supplementary, dated February 24, 2004, declassifying the Series B Cumulative Redeemable Perpetual Preferred Shares (filed as Exhibit 3.10 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 4.1 Form of Common Share Certificate (filed as Exhibit 4.1 to our Registration Statement on Amendment No. 1 of Form S-11, File No. 333-09863, and incorporated by reference herein).
- 4.2 Amended and Restated Rights Agreement, dated January 22, 2002, between Prentiss Properties Trust and EquiServe Trust Company, N.A., as Rights Agent (filed as Exhibit 1 to Amendment No. 2 to our Registration Statement on Form 8-A, filed on February 6, 2002, File No. 000-014516).
- 4.3 First Amendment dated June 26, 2002 to the Amended and Restated Rights Agreement between Prentiss Properties Trust and Equiserve Trust Company, N.A. as Rights Agent (filed as Exhibit 2 to Amendment No. 3 our Registration Statement on Form 8-A, filed on June 27, 2002. File No. 001-014516).
- 4.4 Second Amendment, dated October 21, 2003, to the Amended and Restated Rights Agreement between Prentiss Properties Trust and Equiserve Trust Company, N.A. as Rights Agent (filed as Exhibit 3 to

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Amendment No. 4 to our Registration Statement on Form 8-A, filed on January 26, 2004 File No. 001-014516).

- 4.5 Third Amendment, dated February 14, 2005, to the Amended and Restated Rights Agreement between Prentiss Properties Trust and Equiserve Trust Company, N.A. as Rights Agent (filed as Exhibit 4 to Amendment No. 5 to our Registration Statement on Form 8-A, filed on February 16, 2005, File No. 001-014516 and incorporated by reference herein).
- 4.6 Form of Rights Certificate (included as Exhibit A to the Rights Agreement (Exhibit 4.2)).
- 4.7 Form of Series D Preferred Share Certificate (filed as Exhibit 4.4 to our Form 10-K, filed March 27, 2001, File No. 001-14516, and incorporated by reference herein).

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- 10.1 1996 Share Incentive Plan (filed as Exhibit 10.25 to Amendment No. 1 to our Registration Statement on Form S-11, File No. 333-09863, and incorporated by reference herein).
- 10.2 First Amendment, effective as of May 6, 1997, to the 1996 Share Incentive Plan (filed as Exhibit 4.6 to our Registration Statement on Form S-8, File No. 333-79623, filed on May 28, 1999, and incorporated by reference herein).
- 10.3 Second Amendment, effective as of May 5, 1998, to the 1996 Share Incentive Plan (filed as Exhibit 4.7 to our Registration Statement on Form S-8, File No. 333-79623, filed on May 28, 1999, and incorporated by reference herein).
- 10.4 Third Amendment, effective as of May 9, 2001, to the 1996 Share Incentive Plan (filed as Exhibit 4.5 to our Registration Statement on Form S-8, File No. 333-68520, filed on August 28, 2001, and incorporated by reference herein).
- 10.5 Amendment No. 4, effective as of October 15, 1996, to the 1996 Share Incentive Plan (filed as Exhibit 0.5 to our Form 10-Q, filed November 14, 2002, File No. 001-14516).
- 10.6 Amendment No. 5, effective as of October 23, 2002, to the 1996 Share Incentive Plan (filed as Exhibit 10.6 to our Form 10-Q, filed November 14, 2002, File No. 001-14516).
- 10.7 Sixth Amendment, effective as of May 5, 2004, to the 1996 Share Incentive Plan (filed as Exhibit 4.22 to the Registration Statement on Form S-8 filed on February 14, 2005, File No. 333-122824 and incorporated by reference herein).
- 10.8 Amended and Restated Trustees Share Incentive Plan, effective as of May 15, 2002 (filed as Exhibit 4.12 to our Registration Statement on Form S-8, File No. 333-97045, filed on July 24, 2002, and incorporated by reference herein).
- 10.9 Amendment No. 1, effective as of October 23, 2002, to the Amended and Restated Trustees Share Incentive Plan (filed as Exhibit 10.8 to our Form 10-Q, filed November 14, 2002, File No. 001-14516).
- 10.10 Amendment No. 2, effective as of May 5, 2004, to the Amended and Restated Trustees Share Incentive Plan (filed as Exhibit 4.25 to the Registration Statement on Form S-8 filed on February 14, 2005, File No. 333-122824 and incorporated by reference herein).
- 10.11 Trustees Share Incentive Plan (filed as Exhibit 4.8 to our Registration Statement on Form S-8, File No. 333-79623, filed on May 28, 1999, and incorporated by reference herein).
- 10.12 First Amendment, effective as of May 5, 1998, to the Trustees Share Incentive Plan (filed as Exhibit 4.9 to our Registration Statement on Form S-8, File No. 333-79623, filed on May 28, 1999, and incorporated by reference herein).
- 10.13 Second Amendment, effective as of March 1, 1999, to the Trustees Share Incentive Plan (filed as Exhibit 4.10 to our Registration Statement on Form S-8, File No. 333-79623, filed on May 28, 1999, and incorporated by reference herein).
- 10.14 Third Amendment, effective as of May 10, 2000, to the Trustees Share Incentive Plan (filed as Exhibit 10.8 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by

reference herein).

- 10.15 Form of Stock Option Agreement (filed as Exhibit 10.9 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.16 Amended and Restated Share Purchase Plan, dated as of July 1, 2000 (filed as Exhibit 10.10 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.17 Amendment No. 1, effective as of October 23, 2002, to the Amended and Restated Share Purchase Plan (filed as Exhibit 10.15 to our Form 10-Q, filed November 14, 2002, File No. 001-14516).

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- 10.18 Key Employee Share Option Plan (filed as Exhibit 10.11 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.19 Prentiss Properties Employee Savings Plan (filed as Exhibit 10.12 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.20 Third Amended and Restated Employment Agreement, dated January 1, 2004 by and between Michael V. Prentiss and Prentiss Properties Trust. (filed as Exhibit 10.18 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 10.21 Amended and Restated Employment Agreement, dated May 10, 2000, by and between Thomas F. August and Prentiss Properties Trust (filed as Exhibit 10.21 to our Form 10-K, filed on March 27, 2001, and incorporated herein by reference).
- 10.22 Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P., dated as of October 1, 2001 (filed as Exhibit 10.15 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.23 First Amendment, dated as of December 18, 2001, to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P., dated as of December 18, 2001 (filed as Exhibit 10.16 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.24 Second Amendment, dated as of January 3, 2002, to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P., dated as of October 1, 2001 (filed as Exhibit 10.17 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.25 Third Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 10.40 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.26 Fourth Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 10.20 to our Form 10-Q, filed August 14, 2002, File No. 001-14516).
- 10.27 Fifth Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 99.1 to our Form 8-K, File No. 001-14516, filed on August 14, 2003).
- 10.28 Sixth Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 10.2 to our Form 10-Q, File No. 001-14516, filed on November 12, 2003).
- 10.29 Seventh Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 10.27 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 10.30

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Eighth Amendment to the Third Amended and Restated Agreement of Limited Partnership of Prentiss Properties Acquisition Partners, L.P. (filed as Exhibit 10.28 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).

- 10.31 Series E Cumulative Redeemable Preferred Partnership Units Repurchase Agreement, dated February 4, 2004, by and between Prentiss Properties Acquisition Partners, L.P. and Brandywine Operating Partnership, L.P. (filed as Exhibit 10.29 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 10.32 Series B Preferred Unit Redemption Agreement, dated February 24, 2004, by and between Prentiss Properties Acquisition Partners, L.P., Belrose Realty Corporation, Belmar Realty Corporation, Belport Realty Corporation and Belshire Realty Corporation (filed as Exhibit 10.30 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).

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- 10.33 Credit Agreement, dated May 22, 2003, among Prentiss Properties Acquisition Partners, L.P., as Borrower, Eurohypo AG, New York Branch, as Administrative Agent, Bank One, NA, as Syndication Agent, and other lenders as named therein, (filed as Exhibit 10.2 to our Form 10-Q, File No. 001-14516, filed on August 14, 2003).
- 10.34 Stock Purchase Agreement, dated January 1, 2003, by and between Prentiss Properties Acquisition Partners, L.P. and Ampulla LLC, a single member Limited Liability Company, owned by Michael V. Prentiss, Chairman of the Board of Prentiss Properties Trust, (filed as Exhibit 10.3 to our Form 10-Q, File No. 001-14516, filed on August 14, 2003).
- 10.35 Exchange Agreement, dated as of March 20, 2001, by and among Prentiss Properties Trust, Prentiss Properties Acquisition Partners, L.P. and Security Capital Preferred Growth Incorporated (filed as Exhibit 10.14 to our Form 10-K, filed on March 27, 2001, and incorporated herein by reference).
- 10.36 Registration Rights Agreement, dated as of March 20, 2001, by and among Prentiss Properties Trust and Security Capital Preferred Growth Incorporated (filed as Exhibit 10.15 to our Form 10-K, filed on March 27, 2001, and incorporated by reference herein).
- 10.37 Second Amendment and Restatement of the Agreement, dated March 22, 2002, among Prentiss Properties Acquisition Partners, L.P., as Borrower, Bank One, N.A., as Administrator, Bank of America, N.A., as Syndication Agent, Dresdner Bank, AG as Documentation Agent and each of the Lenders that are signatory therein (filed as Exhibit 10.1 to our Post-Effective Amendment No. 2 to Form S-3, File No. 333-49433, filed July 26, 2002 and incorporated by reference herein).
- 10.38 Credit Agreement, dated March 16, 2001, among Prentiss Properties Acquisition Partners, L.P., as Borrower, Commerzbank AG, New York Branch, as Administrative Agent, Sole Arranger and Sole Book Runner, Fleet National Bank, as Syndication Agent, LaSalle Bank National Association, as Documentation Agent and each of the Lenders named therein (filed as Exhibit 10.21 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.39 First Amendment, dated as of November 28, 2000, to the Credit Agreement, dated September 30, 1999, among Prentiss Properties Acquisition Partners, L.P., as Borrower, Bank One, N.A., as Administrative Agent, Mellon Bank and Union Bank of California as co-documentation agents (filed as Exhibit 10.23 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.40 Second Amended and Restated Credit Agreement, dated as of February 19, 2004, by and among Prentiss Properties Acquisition Partners, L.P., Bank One, NA, Bank of America, N.A., Dresdner Bank AG, Commerzbank AG, Societe Generale Southwest Agency and the lenders named therein (filed as Exhibit 10.38 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 10.41 Amended and Restated Credit Agreement, dated as of March 2, 2004, among Prentiss Properties Acquisition Partners, L.P. as Borrower, Eurohypo AG, New York Branch, as Sole Arranger and Sole Book Runner, Bank One, NA as Syndication Agent, and other Lenders as named therein (filed as Exhibit 10.39 to our Form 10-Q, filed on May 1, 2004, File No. 001-14516 and incorporated by reference herein).
- 10.42 Promissory Note, dated as of June 1, 1999, by and between Prentiss Properties Limited, Inc. and Christopher M. Hipps (filed as Exhibit 10.35 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).



- 10.43 Promissory Note, dated as of January 1, 2002, by and between Prentiss Properties Limited, Inc. and Daniel Cushing (filed as Exhibit 10.36 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.44 Promissory Note, dated as of June 14, 2002, by and among Prentiss Properties Limited, Inc. and Daniel Cushing (filed as Exhibit 10.45 to our Form 10-K, filed March 28, 2003, File No. 001-14516, and incorporated by reference herein).
- 10.45 Purchase Agreement, dated February 25, 2002, by and among Prentiss Properties Trust, Prentiss Properties Acquisition Partners, L.P., Prentiss Properties I, Inc. and Salomon Smith Barney Inc. (filed as Exhibit 10.38 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).

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- 10.46 Registration Rights Agreement, dated February 25, 2002, by and among Prentiss Properties Trust and Salomon Smith Barney Inc. (filed as Exhibit 10.39 to our Form 10-K, filed March 27, 2002, File No. 001-14516, and incorporated by reference herein).
- 10.47 Sales Agreement by and between Prentiss Properties Trust and Brinson Patrick Securities Corporation, dated June 10, 2002 (filed as Exhibit 1.1 to our Post Effective Amendment No. 2 to Form S-3, File No. 333-49433, filed on July 26, 2002).
- 10.48 Amendment to Sales Agreement by and between Prentiss Properties Trust and Brinson Patrick Securities Corporation, dated May 5, 2004 (filed as Exhibit 10.51 to our Form 10-Q, filed on May 1, 2004, File No. 001-14516 and incorporated by reference herein).
- 10.49 Sales Agreement by and between Prentiss Properties Trust and Brinson Patrick Securities Corporation, dated May 28, 2004 (filed as Exhibit 1.1 to our Form S-3, File No. 333-116034, filed on May 28, 2004).
- 10.50 Amended and Restated Limited Partnership Agreement of Prentiss Office Investors, L.P., dated January 29, 2004 (filed as Exhibit 10.50 to our Form 10-K, filed on March 15, 2004, File No. 001-14516).
- 10.51 Prentiss Properties Executive Choice Share Deferral Plan (filed as Exhibit 10.1 to our Form 10-Q, filed May 15, 2003, File No. 001-14516, and incorporated by reference herein).
- 10.52 Prentiss Properties Executive Choice Deferred Compensation Plan (filed as Exhibit 10.2 to our Form 10-Q, filed May 15, 2003, File No. 001-14516, and incorporated by reference herein).
- 10.53 Prentiss Properties Executive Choice Deferred Compensation Plan for Trustees (filed as Exhibit 10.3 to our Form 10-Q, filed May 15, 2003, File No. 001-14516, and incorporated by reference herein).
- 10.54 Prentiss Properties Executive Choice Share Deferral Plan for Trustees (filed as Exhibit 10.4 to our Form 10-Q, filed May 15, 2003, File No. 001-14516, and incorporated by reference herein).
- 10.55 Form of Indemnification Agreement entered into between Prentiss Properties Trust and Officers and Trustees of Prentiss Properties Trust (filed as Exhibit 10.53 to our Form 10-Q, filed November 8, 2004 and incorporated by reference herein).
- 10.56\* Promissory Note by and between Burnett Plaza Associates, an affiliate of Prentiss Properties Trust, as borrower and Bank of America, N.A. as lender, dated March 22, 2005.
- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PRENTISS PROPERTIES TRUST**

Date: May 6, 2005

By: /s/ Scott W. Fordham  
Scott W. Fordham  
Senior Vice President and Chief  
Accounting Officer (Principal  
Accounting Officer and Duly Authorized  
Officer of the Company)

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