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

FORM 10-Q

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

For the quarterly period ended June 30, 1998

or

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

For the transition period from _____ to _____

Commission File Number 1-10709

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

California	95-4300881
(State or Other Jurisdiction of Incorporation)	I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California 91201-2397
(Address of principal executive offices) (Zip Code)

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

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

Yes X No

Number of shares outstanding of each of the issuer's classes of common stock, as of August 11, 1998: Common Stock, $0.01 par value, 23,635,650 shares outstanding

PS BUSINESS PARKS, INC.

INDEX

<TABLE>

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

<CAPTION>

	June 30, 1998 (unaudited)	December 31, 1997
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 36,355,000	$ 3,884,000
Real estate facilities, at cost:		
Land	191,929,000	91,754,000
Buildings and equipment	453,883,000	226,466,000
	645,812,000	318,220,000
Accumulated depreciation	(10,314,000)	(3,982,000)
	635,498,000	314,238,000
Intangible assets, net	1,733,000	3,272,000
Other assets	2,180,000	2,060,000
Total assets	$ 675,766,000	$ 323,454,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued and other liabilities	$ 11,256,000	$ 8,331,000
Mortgage notes payable	29,890,000	-
Note payable to affiliate	-	3,500,000
Total liabilities	41,146,000	11,831,000
Minority interest	151,225,000	168,665,000
Shareholders' equity:		
Preferred Stock, $0.01 par value, 50,000,000 shares authorized, none outstanding at June 30, 1998 and December 31, 1997	-	-
Common stock, $0.01 par value, 100,000,000 shares authorized 23,635,650 shares issued and outstanding at June 30, 1998 (7,728,309 shares issued and outstanding at December 31, 1997)	236,000	773,000
Paid-in capital	482,167,000	142,581,000
Cumulative net income	14,530,000	3,154,000
Cumulative distributions	(13,538,000)	(3,550,000)
Total shareholders' equity	483,395,000	142,958,000
Total liabilities and shareholders' equity	$ 675,766,000	$ 323,454,000

</TABLE>

See accompanying notes.

<TABLE>

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

<CAPTION>

	For the three months ended June 30,		For the six months ended June 30,	
-	1998	1997	1998	1997

Revenues:				
Rental income	$ 21,471,000	$ 6,978,000	$ 35,824,000	$ 12,783,000
Facility management fees primarily from affiliates	129,000	228,000	331,000	475,000
Interest and other income	311,000	110,000	544,000	139,000
	21,911,000	7,316,000	36,699,000	13,397,000
Expenses:				
Cost of operations	6,355,000	2,526,000	10,982,000	5,019,000
Cost of facility management	12,000	49,000	37,000	109,000
Depreciation and amortization	4,256,000	1,195,000	6,556,000	2,015,000
General and administrative	551,000	172,000	996,000	385,000
Interest expense	822,000	-	1,069,000	-
	11,996,000	3,942,000	19,640,000	7,528,000
Income before minority interest	9,915,000	3,374,000	17,059,000	5,869,000
Minority interest in income	(2,869,000)	(2,579,000)	(5,683,000)	(4,392,000)
Net income	$ 7,046,000	$ 795,000	$ 11,376,000	$ 1,477,000
Net income per share:				
Basic	$ 0.38	$ 0.36	$ 0.76	$ 0.68
Diluted	$ 0.38	$ 0.36	$ 0.76	$ 0.68
Weighted average shares outstanding:				
Basic	18,649,693	2,197,779	14,926,093	2,185,569
Diluted	18,710,576	2,197,779	14,977,776	2,185,569

See accompanying notes.

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 1998
(Unaudited)

	Preferred Stock		Common Stock		
	Shares	Amount	Shares	Amount	Paid-in Capital
Balances at December 31, 1997	-	$ -	7,728,309	$ 773,000	$ 142,581,000
Issuances of common stock:					
Conversion of OP Units	-	-	1,785,008	179,000	32,844,000
Private offering, net of costs	-	-	2,185,189	219,000	47,381,000
Exercise of stock options	-	-	39,021	3,000	648,000
In connection with a business combination	-	-	2,283,438	23,000	46,787,000
Public offerings, net of costs	-	-	5,025,800	504,000	118,356,000
Private offering, net of costs	-	-	4,588,885	46,000	104,955,000
Recapitalization in connection with business combination	-	-	-	(1,511,000)	1,511,000
Net income	-	-	-	-	-
Distributions paid	-	-	-	-	-
Adjustment to reflect minority interest to underlying ownership interest	-	-	-	-	(12,896,000)

Balances at June 30, 1998.....	-	$ -	23,635,650	$ 236,000	$ 482,167,000

</TABLE>
<TABLE>

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 1998
(Unaudited)

<CAPTION>

	Cumulative Net Income	Cumulative Distributions	Total Shareholders' Equity
<S>	<C>	<C>	<C>
Balances at December 31, 1997.....	$ 3,154,000	$ (3,550,000)	$ 142,958,000
Issuances of common stock:			
Conversion of OP Units.....	-	-	33,023,000
Private offering, net of costs.....	-	-	47,600,000
Exercise of stock options.....	-	-	651,000
In connection with a business combination.....	-	-	46,810,000
Public offerings, net of costs.....	-	-	118,860,000
Private offering, net of costs.....	-	-	105,001,000
Recapitalization in connection with business combination.....	-	-	-
Net income.....	11,376,000	-	11,376,000
Distributions paid.....	-	(9,988,000)	(9,988,000)
Adjustment to reflect minority interest to underlying ownership interest.....	-	-	(12,896,000)
Balances at June 30, 1998.....	$ 14,530,000	$ (13,538,000)	$ 483,395,000

</TABLE>

See accompanying notes.

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	1998	1997
Cash flows from operating activities:		
<S>	<C>	<C>
Net income.....	$ 11,376,000	$ 1,477,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense.....	6,556,000	2,015,000
Minority interest in income.....	5,683,000	4,392,000
(Increase) decrease in other assets.....	(468,000)	276,000
Increase (decrease) in accrued and other liabilities...	462,000	(98,000)
Total adjustments.....	12,233,000	6,585,000
Net cash provided by operating activities.....	23,609,000	8,062,000
Cash flows from investing activities:		
Acquisition of real estate facilities.....	(241,674,000)	-
Acquisition cost of business combination.....	(424,000)	-
Capital improvements to real estate facilities.....	(3,175,000)	(1,366,000)
Payment received from PSI and affiliates for net property operating liabilities assumed.....	-	2,233,000
Net cash (used in) provided by investing activities..	(245,273,000)	867,000
Cash flows from financing activities:		
Borrowings from an affiliate.....	179,000,000	-
Repayment of borrowings from an affiliate.....	(182,500,000)	-
Principal payments on mortgage notes payable.....	(85,000)	-
Decrease in receivable from affiliate.....	-	641,000
Proceeds from the issuance of common stock, net.....	272,112,000	80,000
Distributions paid to shareholders.....	(9,988,000)	-

Distributions to minority interests.....	(4,404,000)	-
Net cash provided by financing activities.....	254,135,000	721,000
Net increase in cash and cash equivalents.....	32,471,000	9,650,000
Cash and cash equivalents at the beginning of the period.....	3,884,000	919,000
Cash and cash equivalents at the end of the period.....	$ 36,355,000	$ 10,569,000

</TABLE>

See accompanying notes.

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	1998	1997
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCIAL ACTIVITIES:		
Acquisitions of real estate facilities and associated assets and liabilities in exchange for preferred stock, minority interests, and mortgage notes payable:		
<S>	<C>	<C>
Real estate facilities.....	$ (33,428,000)	$(141,480,000)
Other assets (deposits on real estate acquisitions)....	800,000	-
Accrued and other liabilities.....	1,245,000	-
Minority interest.....	1,408,000	120,750,000
Preferred stock.....	-	100,000
Paid in capital	-	19,900,000
Mortgage notes payable.....	29,975,000	-
Intangible assets.....	-	730,000
Business combination:		
Real estate facilities.....	(48,000,000)	-
Other assets.....	(452,000)	-
Accrued and other liabilities.....	1,218,000	-
Common stock.....	23,000	-
Paid in capital.....	46,787,000	-
Recapitalization in connection with business combination:		
Common stock.....	(1,511,000)	-
Paid in capital.....	1,511,000	-
Conversion of OP Units into shares of common stock:		
Minority interest.....	(33,023,000)	-
Common stock.....	179,000	-
Paid in capital.....	32,844,000	-
Adjustment to reflect minority interest to underlying ownership interest:		
Minority interest.....	12,896,000	-
Paid in capital.....	(12,896,000)	-
Exchange of preferred stock for common stock:		
Preferred stock.....	-	(175,000)
Common stock.....	-	175,000
Adjustment to acquisition cost (see Note 2):		
Real estate facilities.....	(1,315,000)	(7,146,000)
Accumulated depreciation.....	-	(820,000)
Intangible assets.....	1,315,000	(4,395,000)
Paid in capital.....	-	12,361,000

</TABLE>

See accompanying notes.

PS BUSINESS PARKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1998

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

ORGANIZATION

PS Business Parks, Inc. ("PSB"), a California corporation, is the successor to American Office Park Properties, Inc. ("AOPP") which merged with and into Public Storage Properties XI, Inc. ("PSP 11") on March 17, 1998 (the "Merger"). The name of the company was changed to "PS Business Parks, Inc." in connection with the Merger. See Note 3 for a description of the Merger

and its terms.

Based upon the terms of the Merger, the transaction for financial reporting and accounting purposes has been accounted for as a reverse acquisition whereby AOPP is deemed to have acquired PSP11. However, PSP11 is the continuing legal entity and registrant for both Securities and Exchange filing purposes and income tax reporting purposes. All subsequent references to PSB for periods prior to March 17, 1998 shall refer to AOPP.

PSB was organized in California in 1986 as a wholly-owned subsidiary of Public Storage Management, Inc. ("PSMI"), a privately owned company of B. Wayne Hughes and his family (collectively "Hughes").

On November 16, 1995, Public Storage, Inc. ("PSI") acquired PSMI in a business combination accounted for using the purchase method. In connection with the transaction, PSI exchanged its common stock for all of the non-voting participating preferred stock of PSB, representing a 95% economic interest, and Hughes purchased all the voting common stock of PSB, representing the remaining 5% economic interest. During December 1996, Ronald L. Havner, Jr. (then an executive officer of PSI) acquired all of Hughes' common stock in PSB.

On January 2, 1997, in connection with the reorganization of the commercial property operations of PSI and affiliated entities, PSB formed a partnership (the "Operating Partnership") whereby PSB became the general partner. Concurrent with the formation of the Operating Partnership, PSI and affiliated entities contributed commercial properties to the Operating Partnership in exchange for limited partnership units ("OP Units"). In addition, PSI contributed commercial properties to PSB in exchange for shares of non-voting participating preferred stock, and such properties were immediately contributed by PSB along with its commercial property management operations and cash to the Operating Partnership for OP Units.

Subject to certain limitations as described in Note 8, holders of OP Units, other than PSB, have the right to require PSB to redeem such holders' OP Units at any time or from time to time beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership.

On March 31, 1997, PSI exchanged its non-voting participating preferred stock into common shares of PSB. As a result of the exchange, PSI owned a majority of the voting common stock and effectively gained control of PSB at that time.

DESCRIPTION OF BUSINESS

PSB is a fully-integrated, self-managed real estate investment trust ("REIT") that acquires, owns and operates commercial properties containing commercial and industrial rental space. From 1986 through 1996, PSB's sole business activity consisted of the management of commercial properties owned primarily by PSI and affiliated entities.

Commencing in 1997, PSB began to own and operate commercial properties for its own behalf. At June 30, 1998, PSB and the Operating Partnership collectively owned and operated 97 commercial properties (approximately 10.2 million net rentable square feet) located in 11 states. In addition, the Operating Partnership managed, on behalf of PSI and affiliated entities, 35 commercial properties (approximately 1.0 million net rentable square feet).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The preparation of the condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998. For further information, refer to the consolidated financial statements and footnotes of PSB for the year ended December 31, 1997 filed on Form 8-K/A dated April 17, 1998 (amending Form 8-K dated March 17, 1998).

The condensed consolidated financial statements include the accounts of PSB and the Operating Partnership. At June 30, 1998, PSB owned approximately 73 % of the OP Units of the Operating Partnership. PSB, as the sole general partner of the Operating Partnership, has full, exclusive and complete responsibility and discretion in managing and controlling the Operating Partnership.

On March 31, 1997, PSB and PSI agreed to exchange the non-voting participating preferred stock held by PSI for 2,098,288 shares of voting common stock of PSB. After the exchange, PSI owned in excess of 95% of the outstanding common voting common stock of PSB and PSB accounted for the transaction as if PSI acquired PSB in a transaction accounted for as a purchase. Accordingly, PSB reflected PSI's cost of its investment in PSB in accordance with Accounting Principles Board Opinion No. 16. As a result of PSI attaining control of PSB, the carrying value of PSB's assets and liabilities were adjusted to reflect PSI's acquisition cost of its controlling interest in PSB of approximately $35 million. As a result, the carrying value of real estate facilities was increased approximately $8.0 million, intangible assets increased approximately $4.4 million and paid in capital increased approximately $12.4 million.

STOCK SPLIT AND STOCK DIVIDEND:

On January 1, 1997, the number of outstanding shares of preferred and common stock increased as a result of a 10 for 1 stock split. In March 1997, the preferred stock of PSB was converted into common stock on a share for share basis. In December 1997, PSB declared a common stock dividend at a rate of .01583 shares for each common share outstanding. Similarly, the Operating Partnership's outstanding OP Units were adjusted to reflect the stock dividend. No adjustment was made to the outstanding OP Units for the January 1997 stock split, as the issuance of OP Units during 1997 already reflected the stock split.

On March 17, 1998, in connection with the merger, PSB's common shares were converted into 1.18 shares of PSP11. Similarly, holders of OP Units received an additional 0.18 OP Units for each outstanding OP Unit held at the time of the merger.

References in the condensed consolidated financial statements and notes thereto with respect to shares of preferred stock, common stock, stock options, and OP Units and the related per share/per unit amounts have been retroactively adjusted to reflect the January 1997 stock split, the December 1997 stock dividend and the March 1998 conversion in connection with the Merger.

CASH AND CASH EQUIVALENTS:

PSB considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

REAL ESTATE FACILITIES:

Costs related to the improvements of properties are capitalized. Expenditures for repair and maintenance are charged to expense when incurred. After March 31, 1997, acquisition of facilities from PSI and entities controlled by PSI have been recorded at the predecessor's basis. Buildings and equipment are depreciated on the straight line method over the estimated useful lives, which is generally 25 and 5 years, respectively.

INTANGIBLE ASSETS:

Intangible assets consist of property management contracts for properties managed, but not owned, by PSB. The intangible assets are being amortized over seven years. As properties managed are subsequently acquired by PSB, the unamortized basis of intangible assets related to such property is included in the cost of acquisition of such property. During April 1997, PSB acquired four properties from PSI and included in the cost of real estate facilities for such properties is $730,000 of cost previously classified as intangible assets. In connection with the Merger, PSB acquired 13 properties and included in the cost of such properties is $1,315,000 (which was net of accumulated amortization of $194,000) of costs previously classified as intangible assets. Intangible assets at June 30, 1998 are net of accumulated amortization of $422,000.

EVALUATION OF ASSET IMPAIRMENT:

In 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which requires impairment losses to be recorded on long-lived assets. PSB evaluates its assets used in operations, by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying amount. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on discounting its estimated future cash flows. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Such assets are to be reported at the lower of their carrying amount or fair value, less cost to sell. PSB adopted SFAS No. 121 in 1996 and the adoption had no effect. PSB's subsequent evaluations have indicated no impairment in the carrying amount of its assets.

NOTE PAYABLE TO AND BORROWINGS FROM AFFILIATE:

Note payable to affiliate at December 31, 1997 of $3,500,000 reflects amounts borrowed from PSI on that date. The note bore interest at 6.97% and was repaid on January 31, 1998. On May 1, 1998, PSB borrowed $179,000,000 from PSI to fund a portion of the acquisition cost of real estate facilities. On May 6, 1998, $105.0 million was repaid and the remaining balance was repaid on May 27, 1998. The borrowings bore interest at 6.91% (per annum).

REVENUE AND EXPENSE RECOGNITION:

All leases are classified as operating leases. Rental income is recognized on a straight-line basis over the terms of the leases. Reimbursements from tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable costs are incurred.

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

Property management fees are recognized in the period earned.

NET INCOME PER COMMON SHARE:

In 1997, the FASB issued SFAS No. 128, Earnings per Share. SFAS No. 128 replaced the calculation of "primary" and "fully diluted" earnings per share with "basic" and "diluted" earnings per share.

"Diluted" shares include the dilutive effect of stock options, while "basic" shares exclude such effect. In addition, weighted average shares utilized in computing basic and diluted earnings per share includes the weighted average participating preferred shares, because such shares were allocated income (subject to certain preferences upon liquidation described below) on an equal per share basis with the common shares.

INCOME TAXES:

During 1997, PSB qualified and intends to continue to qualify as a real estate investment trust ("REIT"), as defined in Section 856 of the Internal Revenue Code. As a REIT, PSB is not taxed on that portion of its taxable income which is distributed to its shareholders provided that PSB meets certain tests. PSB believes it met these tests during 1997. In addition, PSP11 (the legal entity for income tax reporting purposes subsequent to the March 17, 1998 merger) believes it has also met the REIT tests during 1997 and for the six months ended June 30, 1998. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

GENERAL AND ADMINISTRATIVE EXPENSE:

General and administrative expense includes legal and office expense, state income taxes, executive salaries, cost of acquisition personnel and other such administrative items. Such amounts include amounts incurred by PSI on behalf of PSB, which were subsequently charged to PSB in accordance with the allocation methodology pursuant to the cost allocation and administrative services agreement between PSB and PSI.

RECLASSIFICATIONS:

Certain reclassifications have been made to the financial statements for 1997 in order to conform to the 1998 presentation.

3. BUSINESS COMBINATION

On March 17, 1998, AOPP merged into PSP11, a publicly traded real estate investment trust and an affiliate of PSI. Upon consummation of the Merger of AOPP into PSP11, the surviving corporation was renamed "PS Business Parks, Inc." (PSB as defined in Note 1). In connection with the Merger:

* Each outstanding share of PSP11 common stock, which did not elect cash, continued to be owned by current holders. A total of 106,155 PSP11 common shares elected to receive cash of $20.50 per share.

* Each share of PSP11 common stock Series B and each share of PSP11 common stock Series C converted into .8641 share of PSP11 common stock.

* Each share of AOPP common stock converted into 1.18 shares of PSP11 common stock.

* Concurrent with the Merger, PSP11 exchanged 11 mini-warehouses and two properties that combine mini-warehouse and commercial space for 11 commercial properties owned by PSI. The fair value of each group of real estate facilities was approximately $48 million.

The Merger has been accounted for as a reverse merger whereby PSB is treated as the accounting acquirer using the purchase method. This has been determined based upon the following: (i) the former shareholders and unitholders of PSB owned in excess of 80% of the merged companies and (ii) the business focus post-Merger will continue to be that of PSB's which includes the acquisition, ownership and management of commercial properties. Prior to the Merger, PSP11's business focus has been primarily on the ownership and operation of its self-storage facilities which represented approximately 81% of its portfolio.

Allocations of the total acquisition cost to the net assets acquired were made based upon the fair value of PSP11's assets and liabilities as of the date of the Merger. The acquisition cost and the fair market values of the assets acquired and liabilities assumed in the Merger are summarized as follows:

ACQUISITION COST:	
Issuance of common stock.....	$46,810,000
Cash.....	424,000
Total acquisition cost.....	$47,234,000
ALLOCATION OF ACQUISITION COST:	
Real estate facilities.....	$48,000,000
Other assets.....	452,000
Accrued and other liabilities....	(1,218,000)
Total allocation.....	$47,234,000

The historical operating results of PSP11 prior to the Merger have not been included in PSB's historical operating results. Pro forma data for the six months ended June 30, 1998 and 1997 as though the Merger had been effective at the beginning of fiscal 1997 are as follows:

<TABLE>
<CAPTION>

	Six months ended June 30, 1998	1997
<S>	<C>	<C>
Revenues.....	$ 38,577	$ 17,494
Net income.....	12,161	3,152
Net income per share - basic.....	$ 0.77	$ 0.71
Net income per share - diluted.....	$ 0.77	$ 0.71

</TABLE>

The pro forma data does not purport to be indicative either of the results of operations that would have occurred had the Merger occurred at the beginning of fiscal 1997 or of the future results of PSB.

4. REAL ESTATE FACILITIES

The activity in real estate facilities for the three months ended June 30, 1998 is as follows:

<TABLE>
<CAPTION>

	Land	Buildings	Accumulated Depreciation	Total
<S>	<C>	<C>	<C>	<C>
Balances at December 31, 1997.....	$ 91,754,000	$ 226,466,000	$ (3,982,000)	$ 314,238,000
Property acquisitions.....	85,775,000	189,327,000	-	275,102,000
Acquired in connection with the Merger.....	14,400,000	33,600,000	-	48,000,000
Adjustment from intangible assets....	-	1,315,000	-	1,315,000
Capital improvements.....	-	3,175,000	-	3,175,000
Depreciation expense.....	-	-	(6,332,000)	(6,332,000)
Balances at June 30, 1998.....	$191,929,000	$ 453,883,000	$ (10,314,000)	$ 635,498,000

</TABLE>

On January 13, 1998, PSB purchased a commercial property from an unaffiliated third party for approximately $22,518,000, consisting of $22,325,000 cash (of which $500,000 was paid before December 31, 1997) and the issuance of 8,428 OP Units having a value of approximately $193,000.

In March 1998, PSB purchased two commercial properties from unaffiliated

third parties for an aggregate cost of approximately $32,916,000, composed of $17,377,000 cash (of which $300,000 was paid before December 31, 1997), the issuance of 44,250 OP units having a value of approximately $1,013,000, and the assumption of mortgage notes payable of $14,526,000.

On May 4, 1998, the Company acquired 29 commercial properties (approximately 2.3 million net rentable square feet) for an aggregate cost of approximately $190 million in cash.

In June 1998, the Company acquired three properties (approximately 343,000 net rentable square feet) for an aggregate cost of $29,101,000 consisting of $13,449,000 in cash, $15,449,000 in debt assumption and $203,000 in OP Units.

5. LEASING ACTIVITY

Future minimum rental revenues under non-cancelable leases as of June 30, 1998 with tenants for the above real estate facilities are as follows:

1998 (July - December)	$ 40,940,000
1999	68,379,000
2000	48,142,000
2001	31,847,000
2002	21,603,000
Thereafter	29,283,000
	$ 240,194,000

6. REVOLVING LINE OF CREDIT

At June 30, 1998, the Company had no borrowings on its line of credit agreement with PSI. On August 6, 1998, PSB entered into an unsecured line of credit (the "Credit Agreement") with a commercial bank and the line of credit provided by PSI was canceled. The Credit Agreement has a borrowing limit of $100.0 million and an expiration date of August 5, 2000. The expiration date may be extended by one year on each anniversary of the Credit Agreement. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.55% to LIBOR plus .95% depending on the Company's credit ratings and coverage rations, as defined. In addition, the Company is required to pay a quarterly commitment fee of 0.25% (per annum).

7. MORTGAGE NOTES PAYABLE

<TABLE>
<CAPTION>
Mortgage notes at June 30, 1998 consist of the following:

<S>	<C>
7-1/8 % mortgage note, secured by one commercial property, principal and interest payable monthly, due May 2006	$8,984,000
8-1/8 % mortgage note, secured by one commercial property, principal and interest payable monthly, due July 2005	5,461,000
8-1/2 % mortgage note, secured by one commercial property, principal and interest payable monthly, due July 2007	1,960,000
8 % mortgage note, secured by one commercial property, principal and interest payable monthly, due April 2003	1,714,000
7-5/8 % mortgage note, secured by one commercial property, principal and interest payable monthly, due May 2004	11,771,000
	$29,890,000

</TABLE>

At June 30, 1998, approximate principal maturities of mortgage notes payable are as follows:

1998 (July - December)	$ 521,000
1999	1,103,000
2000	1,190,000
2001	1,285,000
2002	1,386,000
Thereafter	24,405,000
	$ 29,890,000

8. MINORITY INTERESTS

In consolidation, PSB classifies ownership interests in the Operating Partnership, other than its own, as minority interest on the consolidated

financial statements. Minority interest in income consists of the minority interests' share of the consolidated operating results.

Subject to certain limitations described below, each limited partner other than PSB has the right to require the redemption of such limited partner's partnership interests at any time or from time to time beginning on the date that is one year after the date on which such limited partner is admitted to the Operating Partnership.

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

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

At June 30, 1998, there were 7,394,411 OP Units owned by minority interests (7,305,355 were owned by PSI and affiliated entities and 89,056 were owned by unaffiliated third parties). On a fully converted basis, assuming all 7,394,411 minority interest OP Units were converted into shares of common stock of PSB at June 30, 1998, the minority interests would own approximately 23.8% of the pro forma common shares outstanding. At the end of each reporting period, PSB determines the amount of equity (book value of net assets) which is allocable to the minority interest based upon this pro forma ownership interest and an adjustment is made to the minority interest, with a corresponding adjustment to Paid in Capital, to reflect the minority interests' equity.

9. PROPERTY MANAGEMENT CONTRACTS

The Operating Partnership manages industrial, office and retail facilities for PSI and entities affiliated with PSI, and third party owners. These facilities, all located in the United States, operate under the "Public Storage" or "PS Business Parks" name.

The property management contracts provide for compensation of five percent of the gross revenue of the facilities managed. Under the supervision of the property owners, the Operating Partnership coordinates rental policies, rent collections, marketing activities, the purchase of equipment and

supplies, maintenance activities, and the selection and engagement of vendors, suppliers and independent contractors. In addition, the Operating Partnership assists and advises the property owners in establishing policies for the hire, discharge and supervision of employees for the operation of these facilities, including property managers, leasing, billing and maintenance personnel.

The property management contract with PSI is for a seven year term with the term being extended one year each anniversary. The property management contracts with affiliates of PSI are cancelable by either party upon sixty days notice.

10. SHAREHOLDERS' EQUITY

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

On January 7, 1998, a holder of OP Units exercised its option and converted its 1,785,008 OP Units into an equal number of shares of PSB common stock. The conversion resulted in an increase in shareholders' equity and a corresponding decrease in minority interest of approximately $33,023,000 representing the book value of the OP Units at the time of conversion.

In January 1998, PSB entered into an agreement with a group of institutional investors under which PSB agreed to issue up to 6,774,074 shares of PSB common stock at $22.88 per share in cash (an aggregate of $155,000,000) in separate tranches. The first tranche, representing 2,185,189 shares or $50.0 million, was issued in January 1998. The Company incurred $2,400,000 in costs associated with the issuance. The remainder of the common shares (4,588,885 common shares) were issued on May 6, 1998 and

the net proceeds ($105.0 million) were used to fund a portion of the cost to acquire commercial properties in May 1998.

On March 17, 1998, in connection with the Merger, PSB recapitalized its equity by changing the par value of its common stock from $0.10 to $0.01 per share. This resulted in a decrease in common stock and a corresponding increase in Paid-in Capital totaling $1,511,000.

In May 1998, the Company completed two common stock offerings, raising net proceeds in aggregate totaling $118.9 million through the issuance of 5,025,800 common shares. A portion of the net proceeds were used in connection with a $190 million property portfolio acquisition.

On March 31, 1998 and June 30, 1998, PSB paid quarterly distributions to its common shareholders' totaling $4,079,000 ($0.347 per common share) and $5,909,000 ($0.25 per common share), respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- ---

GENERAL: Private Securities Litigation Reform Act Safe Harbor Statement. In addition to historical information, management's discussion and analysis includes certain forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. Such forward-looking statements are often identified by the words "estimate," "project," "intend," "plan," "expect," "believe," or similar expressions. Such statements are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from that indicated by the forward-looking statement. Such factors include, but are not limited to a change in economic conditions in the various markets served by the Company's operations which would adversely affect the level of demand for rental of commercial space and the cost structure of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

HISTORICAL OVERVIEW: PS Business Parks, Inc. ("PSB" or the "Company") is a self-managed, self-advised real estate investment trust that acquires, owns and operates commercial properties. The Company is the sole general partner of PS Business Parks, L.P. (the "Operating Partnership") through which the Company conducts most of its activities and owned, as of June 30, 1998, an approximate 73% partnership interest. Substantially all of the remaining partnership interest is owned by Public Storage, Inc. ("PSI") and its affiliates.

The commercial properties owned by the Company and the Operating Partnership generally include both business park (industrial/flex space) and office space. The industrial space is used for, among other things, light manufacturing and assembly, storage and warehousing, distribution and research and development activities. Most of the office space is occupied by tenants who are also renting industrial space. The commercial properties typically consist of one to ten one-story buildings located on three to 20 acres and contain from approximately 10,000 to 500,000 square feet of rentable space (more than 50,000 square feet in the case of the free-standing properties). A property is typically divided into units ranging in size from 500 to 10,000 square feet. Leases generally range from one to five years and some tenants have options to extend the original terms of their leases.

During 1997 and the first six months of fiscal 1998, the Company completed a number of business transactions which have had a significant impact to the Company's comparative operating results for the three and six months ended June 30, 1998 and 1997:

* Merger: PS Business Parks, Inc. ("PSB") is the successor to American Office Park Properties, Inc. ("AOPP") which merged with and into Public Storage Properties XI, Inc. ("PSP 11") on March 17, 1998 (the "Merger"). The name of the surviving company was changed to "PS Business Parks, Inc." in connection with the merger.

  Based upon the terms of the Merger, the transaction for financial accounting purposes has been accounted for as a reverse acquisition whereby AOPP is deemed to have acquired PSP11. However, PSP11 is the continuing legal entity and registrant for both Securities and Exchange Commission filing purposes and income tax reporting purposes. All subsequent references to "PSB" or the "Company" for periods prior to March 17, 1998 shall refer to AOPP.

In connection with the Merger, PSP11 exchanged eleven mini-warehouses and two properties that combine mini-warehouse and commercial space for eleven commercial properties owned by PSI. The fair value of the real estate facilities owned by PSP11 and the commercial facilities received by PSP11 was approximately $48 million. As a result of this transaction, PSB acquired 13 properties with a total of approximately 815,000 net rentable square feet.

* Property acquisitions: Prior to January 2, 1997, the Company and its Operating Partnership did not have an ownership interest in any properties.

On January 2, 1997, the Company acquired 35 commercial properties (approximately 3.0 million net rentable square feet) from Public Storage, Inc. ("PSI") and affiliated entities in exchange for 1,198,680 shares of non-voting participating preferred stock and 5,824,383 units of the Operating Partnership ("OP Units").

On April 1, 1997, the Company acquired four commercial properties from PSI (approximately 370,000 million net rentable square feet) in exchange for 1,480,968 OP Units.

On July 31, 1997, the Company acquired two commercial properties (approximately 435,000 net rentable square feet) from an unaffiliated third party for cash totaling $33,310,000.

On September 24, 1997, the Company acquired a commercial property (approximately 150,000 net rentable square feet) from an unaffiliated third party for an aggregate cost of $10,283,000 consisting of cash of $9,959,000 and the issuance of 14,384 OP Units.

On December 10, 1997, the Company purchased a commercial property (approximately 51,000 net rentable square feet) from an unaffiliated third party for $3,854,000, consisting of cash of $3,554,000 and the issuance of 13,111 OP Units.

On December 24, 1997, the Company acquired six commercial properties (approximately 2.0 million net rentable square feet) valued at $118,655,000 and $1,000,000 in cash from a subsidiary of a state pension plan through a merger and contribution. In connection with the transaction, the Company issued to the subsidiary of the state pension plan 3,504,758 common shares of the Company and 1,785,007 OP Units. The Company incurred approximately $3,300,000 in costs in connection with the transaction.

On January 13, 1998, the Company acquired a commercial property (approximately 308,000 net rentable square feet) for $22,518,000, consisting of cash of $22,325,000 and the issuance of 8,428 OP Units having a value of approximately $193,000.

In March 1998, the Company acquired two commercial properties (approximately 403,000 net rentable square feet) for an aggregate cost of $32,916,000, consisting of cash of $17,377,000, assumption of mortgage notes payable of $14,526,000 and the issuance of 44,250 OP Units having a value of approximately $1,013,000.

On May 4, 1998, the Company acquired 29 commercial properties (approximately 2.3 million net rentable square feet) for an aggregate cost of approximately $190 million in cash.

In June 1998, the Company acquired three properties (approximately 343,000 net rentable square feet) for an aggregate cost of $29.1 million, consisting of $13,449,000 in cash, $15,448,000 in debt assumption and $203,000 in OP Units.

* Common stock issuances for cash: In connection with the Company's July 1997 acquisition of properties, the Company issued 2,025,769 shares of common stock primarily to PSI for cash totaling $33,800,000.

In January 1998, the Company entered into an agreement with a group of institutional investors under which the Company agreed to issue up to 6,774,074 shares of common stock at $22.88 per share in separate tranches. The first tranche, representing 2,185,189 shares or $50.0 million was issued in January 1998. The remainder of the shares were issued on May 6, 1998 for $105.0 million.

In May 1998, the Company completed two common stock offerings, raising net proceeds totaling $118.9 million. In the first offering, the Company sold 4,000,000 shares of common stock to an underwriter, resulting in approximately $95.2 million of net proceeds. These shares were resold to various institutional investors. A portion of the

proceeds were used to retire debt incurred with a $190 million property portfolio acquisition. In the second common stock offering, the Company sold 1,025,800 common shares to an underwriter, resulting in net proceeds of $23.7 million.

* Exchange of non-voting preferred stock for voting common stock: On March 31, 1997, PSI exchanged its non-voting common stock for voting common stock of the Company in a transaction accounted for as a purchase of PSB by PSI. As a result of PSI attaining a 95% ownership interest in PSB voting common stock, PSB reflected PSI's cost of its

investment in PSB in accordance with Accounting Principles Board Opinion No. 16. As a result of PSI attaining control of PSB, the carrying value of PSB's assets and liabilities were adjusted to reflect PSI's acquisition cost of its controlling interest in PSB of approximately $35 million. As a result, the carrying value of real estate facilities was increased at March 31, 1997 by approximately $8.0 million, intangible assets increased by approximately $4.4 million and paid in capital increased by approximately $12.4 million.

RESULTS OF OPERATIONS

Three and six months ended June 30, 1998 compared to the three and six months ended June 30, 1997: Net income for the three months ended June 30, 1998 was $7,046,000 compared to $795,000 for the same period in 1997. Net income for the six months ended June 30, 1998 was $11,376,000 compared to $1,477,000 for the same period in 1997. Net income per common share on a diluted basis was $0.38 (based on weighted average diluted shares outstanding of 18,710,576) for the three months ended June 30, 1998 compared to net income per common share on a diluted basis of $0.36 (based on diluted weighted average shares outstanding of 2,197,779) for the three months ended June 30, 1997, representing an increase of 5.6%. Net income per common share on a diluted basis was $0.76 (based on weighted average diluted shares outstanding of 14,977,776) for the six months ended June 30, 1998 compared to net income per common share on a diluted basis of $0.68 (based on diluted weighted average shares outstanding of 2,185,569) for the six months ended June 30, 1997, representing an increase of 11.8%. The increases in net income and net income per share reflects the Company's significant growth in its asset base through the acquisition of commercial properties.

PROPERTY OPERATIONS: The Company's property operations account for almost all of the net operating income earned by the Company for the three and six months ended June 30, 1998. The following table presents the operating results of the properties for the six months ended June 30, 1998 and 1997:

<TABLE>
<CAPTION>

	Three months ended June 30,			Six months ended June 30,		
	1998	1997	Change	1998	1997	Change
Rental income:						
Facilities owned throughout each period (35 facilities, 3.0 million net						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
rentable square feet)	$6,366,000	$6,059,000	5.1%	$12,381,000	$11,864,000	4.4%
Facilities acquired between March 31, 1997 and March 31, 1998 (30 facilities, 4.6 million net rentable square feet)	11,070,000	919,000	1,104.6%	19,408,000	919,000	2,011.9%
Facilities acquired during the three months ended June 30, 1998 (32 facilities, 2.6 million net rentable square feet)	4,035,000	-	n/a	4,035,000	-	n/a
Total rental income	$21,471,000	$6,978,000	207.7%	$35,824,000	$12,783,000	180.3%
Cost of operations (excluding depreciation):						
Facilities owned throughout each period.	$2,154,000	$2,241,000	(3.9%)	$4,682,000	$4,734,000	(1.1%)
Facilities acquired between March 31 1997 and March 31, 1998	3,540,000	285,000	1,142.1%	5,639,000	285,000	1,878.6%
Facilities acquired during the three months ended June 30, 1998	661,000	-	n/a	661,000	-	n/a
Total cost of operations	$6,355,000	$2,526,000	151.6%	$10,982,000	$5,019,000	118.8%
Net operating income (rental income less cost of operations):						
Facilities owned throughout each period.	$4,212,000	$3,818,000	10.3%	$7,699,000	$7,130,000	8.0%
Facilities acquired between March 31 1997 and March 31, 1998	7,530,000	634,000	1,087.8%	13,769,000	634,000	2,071.8%
Facilities acquired during the three months ended June 30, 1998	3,374,000	-	n/a	3,374,000	-	n/a
Total net operating income	$15,116,000	$4,452,000	239.5%	$24,842,000	$7,764,000	220.0%
Other operating data:						
For the facilities owned throughout each period:						
Annualized realized rent per occupied square foot	$9.00	$8.52	5.6%	$8.76	$8.40	4.3%
Weighted average occupancy for the						

period	94.8%	95.8%	(1.0%)	95.0%	95.6%	(0.6%)

SUPPLEMENTAL PROPERTY DATA AND TRENDS: In order to evaluate how the Company's overall portfolio has performed, management analyzes the operating performance of a consistent group of 51 properties (4.2 million net rentable square feet). These 51 properties represent a mature group of properties which have been managed by the Company for at least three years and, as of June 30, 1998, were owned by the Company. The table below summarizes the historical operations of the 51 properties for the three and six months ended June 30, 1998 and 1997; however, the Company did not own all of the properties throughout the periods presented and therefore, such operations are not all reflected in the Company's historical operating results.

The following table summarizes the pre-depreciation historical operating results of these "Same Park" facilities:

	Three months ended June 30,		
	1998(1)	1997(1)	Change
Rental income	$9,767,000	$9,300,000	5.0%
Cost of operations	3,529,000	3,568,000	(1.1)%
Net operating income	$6,238,000	$5,732,000	8.8%
Gross Margin (2)	63.9%	61.6%	2.3%
Annualized realized rent per occupied square foot (3)	$9.85	$9.32	5.7%
Weighted average occupancy for the period	95.1%	96.1%	(1.0%)

	Six months ended June 30,		
	1998(1)	1997(1)	Change
Rental income	$19,157,000	$18,176,000	5.4%
Cost of operations	7,221,000	7,240,000	(0.3%)
Net operating income	$11,936,000	$10,936,000	9.1%
Gross Margin (2)	62.3%	60.2%	2.1%
Annualized realized rent per occupied square foot (3)	$9.64	$9.16	5.2%
Weighted average occupancy for the period	95.3%	95.9%	(0.6%)

(1) Operations for the three and six months ended June 30, 1998 represent the historical operations of the 51 properties however, the Company did not own all of the properties throughout all periods presented and therefore such operations are not reflected in the Company's historical operating results. All such properties were owned effective March 17, 1998.
(2) Gross margin is computed by dividing property net operating income by rental revenues.
(3) Realized rent per square foot represents the actual revenue earned per occupied square foot.

FACILITY MANAGEMENT OPERATIONS: The Company's facility management accounts for a small portion of the Company's net operating income (less than 1% of net operating income for the three months ended June 30, 1998). During the three months ended June 30, 1998, $117,000 in net operating income was recognized from facility management operations compared to $179,000 for the same period in 1997. During the six months ended June 30, 1998, $294,000 in net operating income was recognized from facility management operations compared to $366,000 for the same period in 1997. Due to the Company's acquisition of properties previously managed, where the Company managed 53 facilities at March 31, 1997 and 35 facilities at June 30, 1998, facility management fees have decreased.

INTEREST AND OTHER INCOME: Interest and other income primarily reflects earnings

on cash balances. Interest and other income was $311,000 for the three months ended June 30, 1998 as compared to $110,000 for the same period in 1997. Interest and other income was $544,000 for the six months ended June 30, 1998 as compared to $139,000 for the same period in 1997. The increases are attributable to increased average cash balances principally due to the Company's issuance of common stock in January and May 1998 and the timing of investing these funds in newly acquired real estate facilities.

DEPRECIATION AND AMORTIZATION EXPENSE: Depreciation and amortization expense for the three months ended June 30, 1998 was $4,256,000, as compared to $1,195,000 for the same period in 1997. Depreciation and amortization expense for the six

months ended June 30, 1998 was $6,556,000, as compared to $2,015,000 for the same period in 1997. The increases are due to the acquisition of real estate facilities in 1997 and 1998.

GENERAL AND ADMINISTRATIVE EXPENSE: General and administrative expense was $551,000 for the three months ended June 30, 1998 compared to $172,000 for the three months ended June 30, 1997. General and administrative expense was $996,000 for the six months ended June 30, 1998 compared to $385,000 for the six months ended June 30, 1997. The increase is due to the increased scope and acquisition activities of the Company. Management anticipates that with the hiring of executive staff, and as the Company's asset and shareholder bases increase, general and administrative expense will increase.

INTEREST EXPENSE: Interest expense was $822,000 and $1,069,000 for the three and six months ended June 30, 1998 (none for the same periods in 1997). Interest expense for 1998 is attributable to mortgage notes assumed in connection with the acquisition of real estate facilities in March and June 1998 combined with interest expense incurred on short-term borrowings from PSI.

MINORITY INTEREST IN INCOME: Minority interest in income reflects the income allocable to equity interests in the Operating Partnership which are not owned by the Company. Minority interest in income for the three months ended June 30, 1998 was $2,869,000 as compared to $2,579,000 for the same period in 1997. Minority interest in income for the six months ended June 30, 1998 was $5,683,000 as compared to $4,392,000 for the same period in 1997. The increases in minority interest in income are due to improved operating results and the issuance of additional Operating Partnership units, primarily in connection with the acquisition of real estate facilities from PSI on April 1, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the six months ended June 30, 1998 and 1997 was $23,609,000 and $8,062,000, respectively. Management believes that its internally generated net cash provided by operating activities will continue to be sufficient to enable it to meet its operating expenses, capital improvements, debt service requirements and distributions to shareholders and holders of Operating Partnership units for the foreseeable future.

The following table summarizes the Company's ability to make capital improvements to maintain its facilities through the use of cash provided by operating activities. The remaining cash flow is available to the Company to pay distributions to shareholders and acquire property interests.

<TABLE>
<CAPTION>

	Six months ended June 30,	
	1998	1997
<S>	<C>	<C>
Net income	$ 11,376,000	$1,477,000
Depreciation and amortization	6,556,000	2,015,000
Change in working capital	(6,000)	178,000
Minority interest in income	5,683,000	4,392,000
Net cash provided by operating activities	23,609,000	8,062,000
Capital improvements to maintain facilities	(3,175,000)	(1,366,000)
Funds available for distributions to shareholders, minority interests, acquisitions and other corporate purposes	20,434,000	6,696,000
Cash distributions to shareholders and minority interests	(14,392,000)	-
Excess funds available for acquisitions and other corporate purposes	$ 6,042,000	$ 6,696,000

</TABLE>

The Company's capital structure is characterized by low level of leverage. As of June 30, 1998, the Company had five fixed rate mortgage notes payable totaling $29,890,000, which represented 4% of its total capitalization (based on book value, including minority interests and debt).

At June 30, 1998, the Company had no borrowings on its line of credit agreement with PSI. On August 6, 1998, PSB entered into an unsecured line of credit (the "Credit Agreement") with a commercial bank and the line of credit provided by

PSI was canceled. The Credit Agreement has a borrowing limit of $100.0 million and an expiration date of August 5, 2000. The expiration date may be extended by one year on each anniversary of the Credit Agreement. Interest on outstanding borrowings is payable monthly. At the option of the Company, the rate of interest charged is equal to (i) the prime rate or (ii) a rate ranging from the London Interbank Offered Rate ("LIBOR") plus 0.55% to LIBOR plus 0.95% depending on the Company's credit ratings and coverage rations, as defined. In addition, the Company is required to pay a quarterly commitment fee of 0.25% (per annum).

The Company expects to fund its growth strategies with cash on hand, internally generated retained cash flows and borrowings from its line of credit. The Company intends to repay amounts borrowed under the credit facility from undistributed cash flow or, as market conditions permit and as determined to be advantageous, from the public or private placement of equity securities.

In January 1998, the Company entered into an agreement with institutional investors whereby the Company agreed to issue 6,774,074 shares of its common stock for cash ($155 million) in separate tranches. The first tranche, representing 2,185,189 shares or $50.0 million, was issued in January 1998. The Company incurred $2,400,000 in costs associated with the issuance. The remainder of the common shares (4,588,885 common shares) were issued on May 6, 1998 and the net proceeds ($105.0 million) were used to repay short-terms borrowings from PSI.

In May 1998, the Company completed two common stock offerings, raising net proceeds totaling $118.9 million. In the first offering, the Company sold 4,000,000 shares of common stock to an underwriter, resulting in approximately $95.2 million of net proceeds. These shares were resold to various institutional investors In the second common stock offering, the Company sold 1,025,800 common shares to an underwriter, resulting in net proceeds of $23.7 million. A portion of the proceeds from these offerings were used to repay short-term borrowings from PSI and to fund the acquisitions of real estate facilities.

FUNDS FROM OPERATIONS: Funds from operations ("FFO") is defined by the Company as net income (loss), computed in accordance with generally accepted accounting principles ("GAAP"), before depreciation, amortization and extraordinary or non-recurring items. FFO is presented because the Company considers FFO to be a useful measure of the operating performance of a REIT which, together with net income and cash flows, provides investors with a basis to evaluate the operating and cash flow performances of a REIT. FFO does not represent net income or cash flows from operations as defined by GAAP. FFO does not take into consideration scheduled principal payments on debt and capital improvements. Accordingly, FFO is not necessarily a substitute for cash flow or net income as a measure of liquidity or operating performance or ability to make acquisitions and capital improvements or ability to pay distributions or debt principal payments. Also, FFO as computed and disclosed by the Company may not be comparable to FFO computed and disclosed by other REITs.

Funds from operations for the Company is computed as follows:

	Six months ended June 30,	
	1998	1997
Net income	$ 11,376,000	$ 1,477,000
Minority interest in income	5,683,000	4,392,000
Depreciation and amortization	6,556,000	2,015,000
Subtotal	23,615,000	7,884,000
FFO allocated to minority interests	(7,867,000)	(5,900,000)
Funds from operations allocated to shareholders	$ 15,748,000	$ 1,984,000

DISTRIBUTIONS: The Company has elected and intends to qualify as a REIT for federal income tax purposes. As a REIT, the Company must meet, among other tests, sources of income, share ownership and certain asset tests. In addition, the Company is not taxed on that portion of its taxable income which is distributed to its shareholders provided that at least 95% of its taxable income is so distributed to its shareholders prior to filing of its tax return.

On August 6, 1998, the Company declared a regular dividend of $0.25 per share payable on September 30, 1998 to shareholders of record on September 15, 1998. This reflects a decrease from $0.34 per common share which was paid to the previous shareholders of Public Storage Properties XI, Inc. The Board of Directors has established a distribution policy to maximize the retention of operating cash flow and only distribute the minimum amount required for the Company to maintain its tax status as a REIT.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(c) On May 6, 1998, the Registrant sold in a private placement pursuant

to Section 4(2) of the Securities Act of 1933, as amended, an aggregate of 4,588,885 shares of its common stock for an aggregate amount of $104,999,911 in cash to the following institutional investors: State of Michigan Retirement Systems, Cohen & Steers Capital Management, Inc., Morgan Stanley Asset Management, Harvard Private Capital Realty, Inc., ABKB/LaSalle Securities Limited Partnership, Fidelity Real Estate Investment Portfolio, Stanford University, The Fidelity REIT Collective Pool, State Employees' Retirement Fund of the State of Delaware and J.W. McConnell Family Foundation.

Item 5. Other Information

(a) Appointment of Executive Officers

On June 8, 1998, Jack E. Corrigan became Vice President, Chief Financial Officer and Secretary of the Registrant and J. Michael Lynch became Vice President - Director of Acquisitions and Development of the Registrant.

Jack E. Corrigan, age 38, is a certified public accountant. From February 1991 until June 1998, Mr. Corrigan was a partner of LaRue, Corrigan & McCormick with responsibility for the audit and accounting practice. He was Controller of Storage Equities, Inc., now known as Public Storage, Inc., from 1989 until February 1991 and was also a Vice President from 1990 until February 1991.

J. Michael Lynch, age 45, was Vice President of Acquisitions and Development of Nottingham Properties, Inc. from 1995 until May 1998. Mr. Lynch has 16 years of real estate experience, primarily in acquisitions and development. From 1988 until 1995, he was a development project manager for The Parkway Companies. From 1983 until 1988, Mr. Lynch was an Assistant Vice President, Real Estate Investment Department of First Wachovia Corporation.

(b) Credit Agreement

On August 6, 1998, PS Business Parks, L.P. entered into a $100 million Revolving Credit Agreement with a bank. The Revolving Credit Agreement is attached hereto as Exhibit 10.5 and is incorporated herein by this reference.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

(10.1) Agreement of Limited Partnership of PS Business Parks, L.P. dated as of March 17, 1998.

(10.2) Registration Rights Agreement dated as of March 17, 1998 between PS Business Parks, Inc. and Acquiport Two Corporation ("Acquiport Registration Rights Agreement").

(10.3) Letter dated May 20, 1998 relating to Acquiport Registration Rights Agreement.

(10.4) Employment Agreement between PS Business Parks, Inc. and J. Michael Lynch dated as of May 20, 1998.

(10.5) Revolving Credit Agreement dated August 6, 1998 among PS Business Parks, L.P., Wells Fargo Bank, National Association, as Agent, and the Lenders named therein.

(11) Statement re: Computation of Earnings per Share

(12) Statement re: Computation of Ratio of Earnings to Fixed Charges

(27) Financial Data Schedule

(b) Reports on Form 8-K

The Registrant filed a Current Report on Form 8-K/A dated April 17, 1998 (amending Form 8-K dated March 17, 1998) pursuant to Item 7 which filed financial statements for PS Business Parks, Inc. (successor to American Office Park Properties, Inc.).

The Registrant filed a Current Report on Form 8-K dated May 4, 1998 (filed May 14, 1998) pursuant to Items 2 and 7 which reported the acquisition of properties from affiliates of Principal Mutual Life and filed financial statements for those properties.

The Registrant filed a Current Report on Form 8-K dated May 20, 1998 pursuant to Item 5 which filed certain exhibits relating to the Registrant's public offering of 4,000,000 shares of common stock.

The Registrant filed a Current Report on Form 8-K dated May 27,

1998 pursuant to Item 5 which filed certain exhibits relating to the Registrant's public offering of 1,025,800 shares of common stock.

SIGNATURES

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

Dated: August 14, 1998

PS BUSINESS PARKS, INC.
BY: /s/ Jack Corrigan
Jack Corrigan
Vice President and Chief Financial Officer

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
Exhibit 11: Statement re: Computation of Earnings per Share

Basic and Diluted Earnings Per Share:	For the Three Months Ended June 30, 1998	For the Three Months Ended June 30, 1997	For the Six Months Ended June 30, 1998	For the Six Months Ended June 30, 1997
<S>	<C>	<C>	<C>	<C>
Net income and net income allocable to common shareholders (same for Basic and Diluted computations)	$7,046,000	$ 795,000	$11,376,000	$1,477,000
Weighted average common shares outstanding:				
Basic - weighted average common shares outstanding	18,649,693	2,197,779	14,926,093	2,185,569
Net effect of dilutive stock options - based on treasury stock method using average market price	60,883	-	51,683	-
Diluted weighted average common shares outstanding	18,710,576	2,197,779	14,977,776	2,185,569
Basic earnings per common share	$ 0.38	$ 0.36	$ 0.76	$ 0.68
Diluted earnings per common share	$ 0.38	$ 0.36	$ 0.76	$ 0.68

</TABLE>

Exhibit 11

<TABLE>
<CAPTION>

PS BUSINESS PARKS, INC.
Exhibit 12: Statement re: Computation of Ratio of Earnings to Fixed Charges

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
	(Amounts in thousands, except ratios)	
<S>	<C>	<C>
Net income	$ 11,376	$ 1,477
Add: minority interest	5,683	4,392
Less: minority interest that does not have fixed charges	-	(4,392)
	17,059	1,477
Add: Interest expense	1,069	-
Earnings available to cover fixed charges	$ 18,128	$ 1,477

Fixed charges (interest expense)	$ 1,069	$ -
Ratio of earnings to fixed charges	16.96	NA

</TABLE>
<TABLE>
<CAPTION>

	Year Ended December 31,				
	1997	1996	1995	1994	1993
	(Amounts in thousands, except ratios)				
<S>	<C>	<C>	<C>	<C>	<C>
Net income before taxes	$ 3,836	$ 519	$ 1,192	$ 1,245	$ 1,517
Minority interest	8,566	-	-	-	-
	12,402	519	1,192	1,245	1,517
Interest expense	1	-	-	-	-
Earnings available to cover fixed charges	$ 12,403	$ 519	$ 1,192	$ 1,245	$ 1,517
Fixed charges - interest expense	$ 1	$ -	$ -	$ -	$ -
Ratio of earnings to fixed charges	12,403	NA	NA	NA	NA

</TABLE>

Exhibit 12

Exhibit 10.1

AGREEMENT OF LIMITED PARTNERSHIP
OF
PS BUSINESS PARKS, L.P.

[Exhibits to this Agreement have been omitted and will be furnished to the Securities and Exchange Commission upon request.]

AGREEMENT OF LIMITED PARTNERSHIP
OF
PS BUSINESS PARKS, L.P.

This AGREEMENT OF LIMITED PARTNERSHIP ("Agreement"), dated as of March 17, 1998, of PS BUSINESS PARKS, L.P. (the "Partnership") is entered into by and among PS BUSINESS PARKS, INC., a California corporation (the "General Partner"), and the Persons whose names are set forth on the attached Exhibit A as the Limited Partners, together with any other Persons who become Partners in the Partnership as provided below.

A. Effective on March 17, 1998, the General Partner (American Office Park Properties, Inc.) merged with and into Public Storage Properties XI, Inc., and the name of Public Storage Properties XI, Inc. (which became the General Partner of the Partnership) was changed to PS Business Parks, Inc. In that merger, each outstanding share of common stock of American Office Park Properties, Inc. was converted into 1.18 shares of common stock of PS Business Parks, Inc.

B. This Agreement amends and restates in its entirety that certain Second Amended and Restated Agreement of Limited Partnership of American Office Park Properties, L.P., dated as of February 24, 1998 in order to: reflect the change in the General Partner, change the name of the Partnership to PS Business Parks, L.P., and convert each outstanding Unit into 1.18 Units (as reflected on the attached Exhibit A).

C. The Partners desire to ratify the formation of the Partnership, and to set forth their respective rights and duties relating to the Partnership on the terms as provided in this Agreement.

The parties agree as follows:

1. DEFINED TERMS

The following definitions shall be applied to the terms used in this Agreement for all purposes, unless otherwise clearly indicated to the contrary.

"Act" means the California Revised Uniform Limited Partnership Act, as it may be amended from time to time, and any successor to such statute.

"Additional Funds" shall have the meaning set forth in Section 4.1(b)(1).

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner in accordance with the terms of this Agreement and who is shown as such on the books and records of the Partnership.

"Affiliate" means, with respect to any Person, (a) any Person directly or indirectly controlling, controlled by or under common control with such Person, (b) any Person owning or controlling 10 percent or more of the outstanding voting interests of such Person, (c) any Person of which such Person owns or controls 10 percent or more of the voting interest, or (d) any officer, director, general partner or trustee of such Person or any Person referred to in clauses (a), (b) and (c) above.

"Agreement" means this Agreement of Limited Partnership, as it may be amended, supplemented or restated from time to time.

"Articles of Incorporation" means the Restated Articles of Incorporation of the General Partner filed with the Office of the Secretary of State of the State of California on March 17, 1998, as amended or restated from time to time, or the articles of incorporation, as amended, of any permitted successor by merger to the General Partner.

"Assignee" means a Person to whom one or more Partnership Units (as defined below) have been transferred in a manner permitted under this Agreement, but who has not become a Substituted Limited Partner, and who has the rights set forth in Section 11.5.

"Available Cash" means with respect to any period for which such calculation is being made:

(a) all cash revenues and funds received by the Partnership from whatever source (excluding the proceeds of any capital contribution) plus the amount of any reduction (including, without limitation, a reduction resulting because the General Partner determines such amounts are no longer necessary) in reserves, working capital accounts or other cash or similar balances of the Partnership referred to in clause (b)(iv) below;

(b) less the sum of the following (except to the extent made with the proceeds of any capital contribution):

(i) all interest, principal and other debt payments made during such period by the Partnership,

(ii) all cash expenditures (including capital expenditures) made by the Partnership during such period,

(iii) investments in any entity (including loans made to the entity) to the extent that such investments are not otherwise described in clauses (b)(i) or (ii), and

(iv) the amount of any increase during such period in reserves, working capital accounts or other cash or similar balances that the General Partner determines is necessary or appropriate to meet the needs of the Partnership in its sole and absolute discretion.

Notwithstanding the foregoing, Available Cash shall not include any cash received or reductions in reserves, or take into account any disbursements made or reserves established, after commencement of the dissolution and liquidation of the Partnership.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Los Angeles, California are authorized or required by law to close.

"Capital Account" means the Capital Account maintained for a Partner pursuant to Section 4.4.

"Certificate" means the Certificate of Limited Partnership relating to the Partnership filed in the office of the Secretary of State of the State of California, as amended from time to time in accordance with the terms of this Agreement and the Act.

"Code" means the Internal Revenue Code of 1986, as amended. Any reference in this Agreement to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"Common Shares" means the shares of Common Stock, $.01 par value per share, of the General Partner.

"Event of Dissolution" has the meaning set forth in Section 13.1.

"General Partner" means PS Business Parks, Inc., a California corporation, or its successors as a general partner of the Partnership.

"General Partnership Interest" means a Partnership Interest held by a General Partner with respect to its interest as a general partner of the Partnership. For purposes of allocations and distributions, but not for voting purposes, a General Partnership Interest may be expressed as a number of Partnership Units.

"IRS" means the Internal Revenue Service of the United States.

"Incapacity" or "Incapacitated" means:

(a) as to any Partner who is a natural person death or total physical disability, as reasonably determined by the General Partner or by an entry by a court of competent jurisdiction adjudicating such Partner as incompetent to manage his or her Person or estate,

(b) as to any corporation that is a Partner, the filing of a certificate of dissolution,

(c) as to any partnership or limited liability company that is a Partner, the dissolution and commencement of winding up of the partnership or limited liability company,

(d) as to any estate that is a Partner, the distribution by the fiduciary of the estate's entire interest in the Partnership,

(e) as to any trustee of a trust that is a Partner, the termination of the trust (but not the substitution of a new trustee) or

(f) as to any Partner, the bankruptcy of such Partner. For purposes of this definition, bankruptcy of a Partner shall be deemed to have occurred when

(i) the Partner commences a voluntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or similar law now or later in effect,

(ii) the Partner executes and delivers a general assignment for the benefit of the Partner's creditors,

(iii) the Partner files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Partner in any voluntary or involuntary, proceeding under any bankruptcy, or similar law now or later in effect,

(iv) the Partner seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator for the Partner or for all or any substantial part of the Partner's properties,

(v) any involuntary proceeding seeking liquidation, reorganization or other relief under any bankruptcy, insolvency or other similar law now or later in effect has not been dismissed within 60 days after its commencement,

(vi) the appointment of a trustee, receiver or liquidator that has not been vacated or stayed within 90 days of such appointment, or

(vii) an appointment referred to in clause (vi) is not vacated within 90 days after the expiration of any such stay.

"Indemnitee" means:

(a) any Person made a party to a proceeding by reason of his or her status as (i) a General Partner, (ii) a Limited Partner, or (iii) an officer of the Partnership or of the General Partner, and

(b) such other Persons (including Affiliates of the General Partner or the Partnership) as the General Partner may designate from time to time (whether before or after the event giving rise to potential liability), in its sole and absolute discretion.

"Limited Partner" means any Person named as a Limited Partner in Exhibit A attached to this Agreement, as such Exhibit may be amended from time to time, or any Substituted Limited Partner or Additional Limited Partner, in such Person's capacity as a Limited Partner in the Partnership.

"Limited Partnership Interest" means a Partnership Interest of a Limited Partner (and any Partnership Interest of the General Partner other than the General Partnership Interest) in the Partnership representing a fractional part of the Partnership Interests of all Limited Partners.

"Liquidator" has the meaning set forth in Section 13.2.

"New Securities" has the meaning set forth in Section 4.2(c).

"Notice of Redemption" means the Notice of Redemption substantially in the form of Exhibit B to this Agreement.

"Option Plans" means the option plans for Common Shares or Units, as the case may be, restricted share plans or employee benefit plans established by the General Partner or the Partnership.

"Partner" means a General Partner or a Limited Partner, and "Partners" means the General Partner and the Limited Partners.

"Partnership" means the limited partnership formed under the Act and pursuant to this Agreement, and any successor to that limited partnership.

"Partnership Interest" means an ownership interest in the Partnership and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Partnership Units.

"Partnership Record Date" means the record date established by the General Partner either (a) for the distribution of Available Cash pursuant to Section 5.1, which shall be the same as the record date established by the General Partner for a distribution to its shareholders of some or all of its portion of such distribution, or (b) for determining the Partners entitled to vote on or consent to any proposed action for which the consent or approval of the Partners is sought.

"Partnership Unit" or "Unit" means a fractional, undivided share of the

Partnership Interests of all Partners issued pursuant to Sections 4.1 and 4.2, in such number as set forth on Exhibit A, as such Exhibit may be amended from time to time, and as such numbers may be adjusted as a result of changes in the Unit Adjustment Factor. The ownership of Partnership Units may be evidenced by a non-transferable, non-negotiable certificate for Units substantially in the form attached as Exhibit C.

"Partnership Year" means the fiscal year of the Partnership, which shall be the calendar year.

"Percentage Interest" means, as to a Partner, its interest in the Partnership as determined by dividing the Partnership Units owned by such Partner by the total number of Partnership Units then outstanding and as specified in the attached Exhibit A, as such Exhibit may be amended from time to time.

"Person" means an individual, corporation, partnership, limited liability company, association, trust, estate or other entity or organization.

"Preferred Shares" shall mean the shares of Non-Voting Preferred Stock, $.01 par value per share, of the General Partner.

"Profit" and "Loss" have the meaning set forth in Section 6.1(f).

"Redeeming Partner" has the meaning set forth in Section 8.6(a).

"Redemption Amount" means an amount of cash per Partnership Unit equal to the Value on the Valuation Date of the Common Shares that the Redeeming Partner being redeemed would have been entitled to receive if the General Partner were to assume the Partnership's obligation to redeem Partnership Units of such Redeeming Partner pursuant to Section 8.6(d) by issuing Common Shares.

"Redemption Right" has the meaning set forth in Section 8.6(a).

"Regulations" means the Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"REIT" means a real estate investment trust under Section 856 of the Code.

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

"Shares" means any Common Shares issued to a Limited Partner upon conversion of such Limited Partner's Units pursuant to Section 8.6(d).

"Shares Amount" means a number of Common Shares equal to the number of Partnership Units (as appropriately adjusted pursuant to changes in the Unit Adjustment Factor) offered for redemption by a Redeeming Partner; provided that, if the General Partner issues to all holders of Common Shares rights, options, warrants or convertible or exchangeable securities entitling such holders to subscribe for or purchase Shares or any other securities or property (collectively, the "rights"), then the Shares Amount shall also include such rights that a holder of that number of Shares would be entitled to receive.

"Specified Redemption Date" means the tenth Business Day after receipt by the General Partner of a Notice of Redemption.

"Subsidiary" means, with respect to any Person, any corporation or other entity of which a majority of (a) the voting power of the voting equity securities or (b) the outstanding equity interests is owned, directly or indirectly, by such Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 11.4.

"Unit Adjustment Factor" means initially 1.0 provided that in the event that the General Partner

(a) declares or pays a dividend on its outstanding Common Shares in Common Shares or makes a distribution to all holders of its outstanding Common Shares in Common Shares,

(b) subdivides its outstanding Common Shares or

(c) combines its outstanding Common Shares into a smaller number of Common Shares,

the Unit Adjustment Factor shall be adjusted to be a fraction, the numerator of which shall be the number of Common Shares issued and outstanding on the record date for such dividend, distribution, subdivision or combination (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of Common Shares (determined without the above assumption) issued and

outstanding on the record date for such dividend, distribution, subdivision or combination. If another entity shall become the General Partner (the "Successor Entity"), the Unit Adjustment Factor shall be adjusted to be a fraction, the numerator of which is the value of one share of the predecessor General Partner, determined as of the date when the Successor Entity becomes the General Partner, and the denominator of which is the value of one share of the Successor Entity, determined as of that same date. The Board of Directors of the General Partner shall determine when an adjustment to the Unit Adjustment Factor is necessary. The Board's determination as to whether an adjustment is necessary and the amount of such adjustment shall be conclusive absent manifest error. Any adjustment to the Unit Adjustment Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event (provided, however, if a Notice of Redemption is given prior to such a record date but the Specified Redemption Date is after the record date, then the change in the Unit Adjustment Factor with respect to that Redeeming Partner shall be retroactive to the date of the Notice of Redemption). In the event of any change in the Unit Adjustment Factor, the number of Partnership Units held by each Partner shall be proportionately adjusted by multiplying the number of Partnership Units held by such Partner immediately prior to the change in the Unit Adjustment Factor by the new Unit Adjustment Factor; the intent of this provision is for one Partnership Unit to remain exchangeable for one Common Share without dilution.

"Valuation Date" means the date of receipt by the General Partner of a Notice of Redemption or, if such date is not a Business Day, the first subsequent Business Day.

"Value" means, with respect to a Common Share, the average of the daily market price for the ten (10) consecutive trading days immediately preceding the Valuation Date. The market price for each such trading day shall be:

(a) if the Common Shares are listed or admitted to trading on any securities exchange or the Nasdaq National Market, the closing price, regular way, on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices on such day;

(b) if the Common Shares are not listed or admitted to trading on any securities exchange or the Nasdaq National Market, the last reported sale price on such day or, if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reliable quotation source designated by the General Partner; or

(c) if the Common Shares are not listed or admitted to trading on any securities exchange or the Nasdaq National Market and no such last reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reliable quotation source designated by the General Partner, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than 10 days prior to the date in question) for which prices have been so reported; provided that if there are no bid and asked prices reported during the 10 days prior to the date in question, the Value of the Common Shares shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate.

If a holder of Common Shares would be entitled to receive rights to purchase Common Shares ("Common Share Rights") issued to all holders of Common Shares, then the Value of such Common Share Rights shall be determined by the General Partner acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate.

2. ORGANIZATIONAL MATTERS

2.1 Organization and Formation: Application of Act.

(a) Organization and Formation of Partnership. The General Partner and the Limited Partners ratify the formation and continuation of the Partnership as a limited partnership according to all of the terms and provisions of this Agreement and otherwise in accordance with the Act. The General Partner is the sole general partner and the Limited Partners are the sole limited partners of the Partnership.

(b) Application of Act. The Partnership is a limited partnership subject to the provisions of the Act and the terms and conditions set forth in this Agreement. Except as expressly provided in this Agreement to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Act. No Partner has any interest in any Partnership Property, and the Partnership Interest of each Partner shall be personal property for all purposes.

2.2 Name. The name of the Partnership is PS Business Parks, L.P. The Partnership's business may be conducted under any other name or names deemed advisable by the General Partner, including the name of the General Partner or any Affiliate of the General Partner. The words "Limited Partnership," "L.P.,"

"Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole and absolute discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners; provided that the name of the Partnership may not be changed to include the name of any Limited Partner without the written consent of that Limited Partner.

2.3 Principal Office. The address of the principal office of the Partnership shall be located at 701 Western Avenue, Glendale, California 91201, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of California as the General Partner deems advisable.

2.4 Term. The term of the Partnership commenced as of January 1, 1997, and shall continue until December 31, 2096, unless it is dissolved sooner pursuant to the provisions of Article 13 or as otherwise provided by law.

3. PURPOSE

3.1 Purpose and Business. The purpose and nature of the business to be conducted by the Partnership is:

(a) to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Act,

(b) to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in (directly or indirectly) any of the foregoing and

(c) to do anything necessary or incidental to the foregoing;

provided, however, that each of the foregoing clauses (a), (b) and (c) shall be limited and conducted in such a manner as to permit the General Partner at all times to be classified as a REIT, unless the General Partner provides notice to the Partnership that it intends to cease or has ceased to qualify as a REIT. The Partners acknowledge that the status of the General Partner as a REIT inures to the benefit of all Partners and not solely to the benefit of the General Partner and its affiliates.

3.2 Powers. The Partnership is empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in this Agreement and for the protection and benefit of the Partnership; provided that the Partnership shall not take, or refrain from taking, any action that, in the judgment of the General Partner, in its sole and absolute discretion, (a) could adversely affect the ability of the General Partner to continue to qualify as a REIT, (b) could subject the General Partner to any additional taxes under Section 857 or Section 4981 of the Code or (c) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or its securities, unless such action (or inaction) shall have been specifically consented to by the General Partner in writing.

3.3 Partnership Only for Purposes Specified. The Partnership shall be a partnership only for the purposes specified in Section 3.1, and this Agreement shall not be deemed to create a partnership among the Partners with respect to any activities whatsoever other than the activities within the purposes of the Partnership as specified in Section 3.1. Except as otherwise provided in this Agreement, no Partner shall have any authority to act for, bind, commit or assume any obligation or responsibility on behalf of the Partnership, its properties or any other Partner. No Partner, in its capacity as a Partner under this Agreement, shall be responsible or liable for any indebtedness or obligation of another Partner, nor shall the Partnership be responsible or liable for any indebtedness or obligation of any Partner, incurred either before or after the execution and delivery of this Agreement by such Partner, except as to those responsibilities, liabilities, indebtedness or obligations incurred pursuant to and as limited by the terms of this Agreement and the Act.

3.4 Representations and Warranties by the Parties.

(a) Each Partner that is an individual represents and warrants to each other Partner that:

(i) the consummation of the transactions contemplated by this Agreement to be performed by such Partner will not result in a breach or violation of or a default under, any agreement by which such Partner or any of such Partner's property is or are bound, or any statute, regulation, order or other law to which such Partner is subject, and

(ii) such Partner shall inform the Partnership whether such Partner is a "foreign person" within the meaning of Section 1445(f) of the

Code.

(b) Each Partner that is not an individual represents and warrants to each other Partner that:

(i) all transactions contemplated by this Agreement to be performed by it have been duly authorized by all necessary action, including without limitation, that of its general partner(s), committee(s), trustee(s), beneficiaries, directors and/or shareholder(s), as the case may be, as required,

(ii) the consummation of such transactions shall not result in a breach or violation of, or a default under, its partnership agreement, trust agreement, charter or by-laws, as the case may be, any agreement by which such Partner or any of such Partner's properties or any of its partners, beneficiaries, trustees or shareholders, as the case may be, is or are bound, or any statute, regulation, order or other law to which such Partner or any of its partners, trustees, beneficiaries or shareholders, as the case may be, is or are subject and

(iii) such Partner shall inform the Partnership whether such Partner is a "foreign person" within the meaning of Section 1445(f) of the Code.

(c) Each Limited Partner further represents, warrants and agrees that, it does not and will not, without the prior written consent of the General Partner, actually own or constructively own (under the attribution rules of Code Section 318, as modified by Code Section 856(d)(5)) stock of any corporation, or an interest in the assets and profits of any other entity, from which the General Partner or the Partnership, directly or indirectly, derives material rental income from real property that would be excluded from "rents from real property" pursuant to Code Section 856(d)(2)(B).

(d) Upon the request of the General Partner, each Limited Partner will disclose to the General Partner the amount of Common Shares or other shares of capital stock of the General Partner that it actually owns or constructively owns and shall further disclose to the General Partner any ownership in the stock, assets or net profits of any corporation or other entity from which the General Partner or the Partnership, directly or indirectly, derives material rental income from real property.

(e) Each Partner represents and warrants that it is an "accredited investor" as defined in Rule 501 promulgated under the Securities Act. Each Partner represents, warrants and agrees that it has acquired and continues to hold its interest in the Partnership for its own account for investment only and not for the purpose of, or with a view toward, the resale or distribution of all or any part of that interest, nor with a view toward selling or otherwise distributing such interest or any part of that interest at any particular time or under any predetermined circumstances. Each Partner further represents and warrants that it is a sophisticated investor, able and accustomed to handling sophisticated financial matters for itself, particularly real estate investments, and that it has a sufficiently high net worth that it does not anticipate a need for the funds it has invested in the Partnership in what it understands to be a highly speculative and illiquid investment.

(f) The representations and warranties contained in this Section 3.4 shall survive the execution and delivery of this Agreement by each Partner and the dissolution, liquidation and termination of the Partnership.

(g) Each Partner acknowledges that no representations as to potential profit, distributions, cash flows, funds from operations or yield, if any, in respect of the Partnership or the General Partner have been made by any Partner or any employee or representative or Affiliate of any Partner, and that projections and any other information, including, without limitation, financial and descriptive information and documentation, that may have been in any manner submitted to such Partner shall not constitute any representation or warranty of any kind or nature, express or implied.

4. CAPITAL CONTRIBUTIONS; ISSUANCE OF UNITS; CAPITAL ACCOUNTS

4.1 Capital Contributions of the Partners.

(a) Initial Capital Contributions. At the time of the execution of this Agreement, the Partners shall make or shall have made the capital contributions set forth in Exhibit A to this Agreement. The Partners shall own Partnership Units in the amounts set forth in Exhibit A and shall have a Percentage Interest in the Partnership as set forth in Exhibit A, which Percentage Interest shall be adjusted in Exhibit A from time to time by the General Partner to the extent necessary to reflect accurately redemptions, conversions, capital contributions, the issuance of additional Partnership Units, transfers of Partnership Interests permitted under Article 11, or similar events having an effect on a Partner's Percentage Interest. Sixty-six Thousand, Eight Hundred and Eighty-five (66,885) Partnership Units held by the General

Partner (representing one percent (1%) of all outstanding Partnership Units as of the date of the initial capital contributions to the Partnership) shall be deemed to be the General Partnership Interest.

(b) Additional Capital Contributions.

(1) No Partner shall be assessed or, except as provided for in Sections 4.1(b)(2) below, and except for any such amounts that a Limited Partner may be obligated to repay under Section 10.5 (withholding provision), be required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner in its sole discretion ("Additional Funds"), may, at the option of the General Partner and without an obligation to do so (except as provided for in Section 4.1(b)(2)), be contributed by the General Partner as additional capital contributions. If and as the General Partner or any other Partner makes additional capital contributions to the Partnership, each such Partner shall receive additional Partnership Units as provided for in Section 4.2.

(2) The proceeds of any and all funds raised by or through the General Partner through the issuance of additional shares of the General Partner (whether Common Shares or Preferred Shares) shall be contributed to the Partnership as additional capital contributions, and in such event the General Partner shall be issued additional Partnership Units pursuant to Section 4.2 below. In any such case, if the proceeds so contributed are less than the gross proceeds of the issuance (i.e., due to any underwriter's discount or other expenses incurred in connection with the issuance), the General Partner's capital contribution shall be deemed to equal the amount of the gross proceeds (i.e., the net proceeds actually contributed, plus any underwriter's discount or other expenses incurred, and any such discount or expense shall be deemed to have been incurred on behalf of the Partnership).

(c) Return of Capital Contributions. Except as otherwise expressly provided in this Agreement, the capital contribution of each Limited Partner will be returned to that Partner only in the manner and to the extent provided in Article 5 and Article 13, and no Partner may withdraw from the Partnership or otherwise have any right to demand or receive the return of its capital contribution to the Partnership (as such), except as specifically provided in this Agreement. Under circumstances requiring a return of any capital contribution, no Partner shall have the right to receive property other than cash, except as specifically provided in this Agreement. No Partner shall be entitled to interest on any capital contribution or Capital Account notwithstanding any disproportion between the Partners in their capital contributions or Capital Accounts. Except as specifically provided in this Agreement, the General Partner shall not be liable for the return of any portion of the capital contribution of any Limited Partner, and the return of such capital contribution shall be made solely from Partnership assets.

(d) Liability of Limited Partners. No Limited Partner shall have any further personal liability to contribute money to, or in respect of, the liabilities or the obligations of the Partnership, nor shall any Limited Partner be personally liable for any obligations of the Partnership, except as otherwise provided in this Article 4 or in the Act. No Limited Partner shall be required to make any contributions to the capital of the Partnership other than its initial capital contribution.

(e) No Obligations for Deficit Capital Accounts. If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including those during any year in which a liquidation occurs), such Partner shall have no obligation at the time of liquidation or otherwise to make any contribution to the capital of the Partnership with respect to that deficit, and the deficit shall not be considered a debt owed to the Partnership or to any other Person for any purpose.

4.2 Issuances of Additional Partnership Interests.

(a) Issuances In General. The General Partner is authorized to cause the Partnership to issue such additional Partnership Units or other Partnership Interests for any Partnership purpose at any time or from time to time, including Units in one or more series of any classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to other Partnership Interests, all as shall be determined by the General Partner, subject to California law, including, without limitation, with respect to (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Interests, (ii) the right of each such class or series of Partnership Interests to share in Partnership distributions, and (iii) the rights of each class or series of Partnership Interests upon dissolution and liquidation of the Partnership, for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners except to the extent specifically provided in this Agreement. The General Partner may also amend the Agreement to provide for the issuance of Partnership Units the Redemption Right of which will relate to

Preferred Shares on such terms as are determined by the General Partner.

(b) Issuance to the General Partner. In the case of the issuance of additional Partnership Units or other Partnership Interests to the General Partner: (i) the agreement to issue the additional Partnership Interests must arise in connection with an issuance of or agreement to issue shares of the General Partner, which shares have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Interests that would be issued to the General Partner in accordance with this Section 4.2(b), and (ii) the General Partner shall agree to make a capital contribution to the Partnership in an amount equal to the proceeds raised in connection with the issuance of such shares of the General Partner. For this purpose, if the General Partner merges with another entity, assets of the other entity acquired as a result of the merger shall be treated as acquired by the General Partner in connection with the "issuance" of the shares held by the other entities' shareholders in the surviving entity.

(c) Issuance of Additional Shares. The General Partner is explicitly authorized to issue additional Common Shares or Preferred Shares of the General Partner, or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase Common Shares and Preferred Shares ("New Securities") and in connection with the issuance: (i) the General Partner shall contribute the proceeds from the issuance of such New Securities and from the exercise of rights contained in such New Securities to the Partnership or agree as provided in Section 7.6 at the option of the Partnership to make such a contribution, and (ii) upon the contribution, the Partnership shall issue to the General Partner, Partnership Interests or rights, options, warrants or convertible or exchangeable securities of the Partnership having designations, preferences and other rights, all such that the economic interests are substantially similar to those of the New Securities. In connection with the issuance of Partnership Interests that are substantially similar to New Securities, the General Partner is authorized to modify or amend the distributions or allocations under this Agreement solely to the extent necessary to give effect to the designations, preferences and other rights pertaining to such Partnership Interests.

(d) Forfeiture of Shares. If the Partnership or the General Partner acquires Common Shares as a result of the forfeiture of such Common Shares under a restricted or similar share plan, then the General Partner shall cause the Partnership to cancel that number of Partnership Units equal to the number of Common Shares so acquired, and, if the Partnership acquired such Common Shares, it shall transfer such Common Shares to the General Partner for cancellation.

(e) Issuance Pursuant to Option Plans.

(1) Upon the exercise of an option to acquire Common Shares of the General Partner that is granted by the Partnership or the General Partner, the optionee shall transfer the exercise price to the Partnership, and the Partnership shall purchase from the General Partner for fair market value at the time of exercise the number of Common Shares with respect to which options were exercised and shall transfer the shares to the optionee. The General Partner shall immediately transfer the proceeds received for the Common Shares to the Partnership in exchange for a number of Units equal to the number of Common Shares sold.

(2) The General Partner shall cause the Partnership to issue Partnership Units of the Partnership upon the exercise by any optionee of an option to acquire Partnership Units granted by the Partnership pursuant to the Option Plans in accordance with the terms of the Option Plans. Partnership Units so issued shall represent Limited Partnership Interests.

4.3 No Preemptive Rights. Except to the extent expressly granted by the General Partner pursuant to a written agreement, no Person shall have any preemptive, preferential or other similar right with respect to (a) additional capital contributions or loans to the Partnership, or (b) issuance or sale of any Partnership Units.

4.4 Capital Accounts. A separate capital account (a "Capital Account") shall be established and maintained for each Partner in accordance with Regulations Section 1.704-1(b)(2)(iv) and the terms of this Agreement. The General Partner is authorized to revalue the property of the Partnership to its fair market value (as determined by the General Partner, in its sole discretion, and taking into account Section 7701(g) of the Code) in accordance with Regulations Section 1.704-1(b)(2)(iv)(f). When the Partnership's property is revalued by the General Partner, the Capital Accounts of the Partners shall be adjusted in accordance with Regulations Section 1.704-1(b)(2)(iv)(f) and (g).

4.5 General Partner Loans or Funding. The General Partner may, or to the extent the General Partner enters into a "Funding Debt" (i.e., any debt incurred by or on behalf of the General Partner for the purpose of providing funds to the Partnership), the General Partner shall, lend Additional Funds to the Partnership or contribute the funds to the Partnership for a Partnership Interest paying a preferred return (a "General Partner Funding"). If the General Partner enters into such a Funding Debt, the General Partner Funding will

consist of the proceeds from such Funding Debt and if the funds are loaned to the Partnership, the loan will be on the same terms and conditions, including interest rate, repayment schedule and costs and expenses, incurred in connection with such Funding Debt, and in the case of a contribution to the Partnership, the preferred partnership interest will substantially reflect the terms of the Funding Debt. Otherwise, any General Partner Funding made pursuant to this Section 4.5 shall be on terms and conditions no less favorable to the Partnership than would be available to the Partnership from any third party. If a Funding Debt or debt issued by the Partnership is comprised, in whole or in part, of debt convertible into or exchangeable for Common Shares or other equity interests in the General Partner and any portion of such debt is converted into or exchanged for Common Shares, the General Partner shall have the right, but not the obligation, to convert the equivalent amount of the General Partner Funding into additional Partnership Interests.

4.6 Loans by Third Parties. The Partnership may incur debt, or enter into other similar credit, guarantee, financing or refinancing arrangements for any purpose (including, without limitation, in connection with any further acquisition of properties) from any Person that is not the General Partner upon such terms as the General Partner determines appropriate; provided that, the Partnership shall not incur any debt under which a breach, violation or default would be deemed to occur by virtue of the transfer of any Limited Partnership Interest.

5. DISTRIBUTIONS

5.1 Requirement and Characterization of Distributions. The General Partner shall, commencing in 1998, distribute at least quarterly an amount equal to all Available Cash generated by the Partnership during such quarter or shorter period to the Partners who are Partners on the Partnership Record Date with respect to such quarter or shorter period (i) first, with respect to any class of Partnership Interests issued pursuant to Section 4.2 that is entitled to a preference over other Partnership Units on the distribution of Available Cash (and among such classes in order of the preferences designated between those classes, and pro rata within each such class), and (ii) then, in accordance with their respective Percentage Interests on such Partnership Record Date; provided that in no event may a Redeeming Partner receive a distribution of Available Cash with respect to a Unit if such Partner is entitled to receive a distribution with respect to a Common Share for which such Unit has been redeemed or exchanged. It will be the policy of the Partnership, commencing in 1998, to make distributions per Unit that are equal to the per share distributions made by the General Partner with respect to its Common Shares, and in any case the per Unit and per share distributions will be equal during the Partnership Years 1998, 1999, and 2000. The General Partner shall make such efforts, as it determines in its sole and absolute discretion, to cause the Partnership to distribute its operating cash flow in a manner that would ensure that such distributions are treated by the Limited Partners as "operating cash flow distributions" within the meaning of Regulations Section 1.707-4(b)(2).

5.2 Amounts Withheld. All amounts withheld pursuant to the Code or any provisions of any state, local or foreign tax law and Section 10.5 with respect to any allocation, payment or distribution to the General Partner or any Limited Partners or Assignees shall be treated as amounts distributed to the General Partner or such Limited Partners or Assignees pursuant to Section 5.1 for all purposes under this Agreement.

5.3 Distributions Upon Liquidation. Proceeds from any sale or other disposition of all or substantially all of the assets of the Partnership or a related series of transactions that, taken together, results in the sale or other disposition of all or substantially all of the assets of the Partnership shall be distributed to the Partners in accordance with Section 13.2.

5.4 Distributions in Kind. No Partner has any right to demand and receive property other than cash. The General Partner may determine, in its sole and absolute discretion, to make a distribution in kind to the Partners of Partnership assets, and such assets shall be distributed in such a fashion as to ensure that the fair market value is distributed and allocated in accordance with Articles 5 and 6.

5.5 REIT Distribution Requirements. Notwithstanding anything to the contrary in this Agreement, the General Partner may cause the Partnership to distribute amounts sufficient to enable the General Partner to pay shareholder dividends that will allow the General Partner to (i) meet its distribution requirement for qualification as a REIT as set forth in Section 857(a)(1)of the Code and (ii) avoid any federal income or excise tax liability imposed by the Code.

6. ALLOCATIONS

6.1 Allocation of Profit and Loss.

(a) General. Except as otherwise set forth in this Agreement, Profit and Loss and items of income, gain, expense, or loss of the Partnership for each fiscal year of the Partnership shall be allocated among the Partners in accordance with their respective Percentage Interests. The provisions of this

Section 6.1 shall be amended appropriately in the event that the General Partner causes the Partnership to issue Units with different preferences or redemption rights.

(b) Nonrecourse Deductions and Minimum Gain Chargeback. Notwithstanding any provision to the contrary:

(i) any expense of the Partnership that is a "nonrecourse deduction" within the meaning of Regulations Section 1.704-2(b)(1) shall be allocated in accordance with the Partners' respective Percentage Interests,

(ii) any expense of the Partnership that is a "partner nonrecourse deduction" within the meaning of Regulations Section 1.704-2(i)(2) shall be allocated in accordance with Regulations Section 1.704-2(i)(l),

(iii) if there is a net decrease in "partnership minimum gain" within the meaning of Regulations Section 1.704-2(g)(1) that would subject a Partner to a "minimum gain chargeback" within the meaning of Regulations Section 1.704-2(f) for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with (to the minimum extent allowable) Regulations Section 1.704-2(f) and the ordering rules contained in Regulations Section 1.704-2(j), and

(iv) if there is a net decrease within the meaning of Regulations Section 1.704-2(i)(4) in "partner nonrecourse debt minimum gain" within the meaning of Regulations Section 1.704-2(i)(5) that would subject a Partner to a minimum gain chargeback for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with (to the minimum extent allowable) Regulations Section 1.704-2(i)(4) and the ordering rules contained in Regulations Section 1.704-2(j).

A Partner's "interest in partnership profits" for purposes of determining its share of the nonrecourse liabilities of the Partnership within the meaning of Regulations Section 1.752-3(a)(3) shall be such Partner's Percentage Interest.

(c) Qualified Income Offset. If a Partner receives in any taxable year an adjustment, allocation, or distribution described in subparagraphs (4),(5) or (6) of Regulations Section 1.704(b)(2)(ii)(d) that causes or increases a negative balance in such Partner's Capital Account that exceeds the sum of such Partner's share of "partnership minimum gain" and "partner nonrecourse debt minimum gain," as determined in accordance with Regulations Sections 1.704-2(g) and 1.704-2(i), such Partner shall be allocated specially for such taxable year (and, if necessary, later taxable years) items of income and gain in an amount and manner sufficient to eliminate such negative Capital Account balance as quickly as possible as provided in Regulations Section 1.704-1(b)(2)(ii)(d).

(d) Capital Account Deficits. Loss shall not be allocated to a Partner to the extent that such allocation would cause (or increase) a deficit in such Partner's Capital Account (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to exceed the sum of such Partner's shares of "partnership minimum gain" (Regulations Section 1.704-2(g)(1)) and "partner nonrecourse debt minimum gain" (Regulations Section 1.704-2(i)(5)). Any Loss in excess of that limitation shall be allocated to the General Partner.

(e) Allocations Upon Changes in Partnership Interests. If a Partner transfers any part or all of its Partnership Interest or upon changes in the outstanding Partnership Interests (such as the issuance or redemption of Partnership Interests), the distributive shares of the various items of Profit and Loss and other items attributable to those Partnership Interests allocable among the Partners during such fiscal year of the Partnership shall be allocated between the transferor and the transferee Partner or between the persons treated a Partners prior to such event and those treated as Partners after the event as the General Partner deems appropriate to take into account their varying interests during that period (which may include interim closings of the books, prorations of items, using daily, weekly, monthly, or quarterly proration periods, etc.). The General Partner, in its sole discretion, shall determine the method or methods to be used to allocate the distributive shares of items between the Partners. In addition, allocations of items among the Partners may be changed by agreement between the General Partner and the affected Limited Partner or Limited Partners, without amendment of this Agreement or consent of the other Limited Partners.

(f) Definition of Profit and Loss. "Profit" and "Loss" and any items of income, gain, expense, or loss referred to in this Agreement shall be determined by the General Partner in accordance with the Partnership's "book" income computed under federal income tax accounting principles taking into account Regulations Section 1.704-1(b)(2)(iv) and the effect of any revaluation of Partnership property in accordance with Regulations Section 1.704-1(b)(2)(iv)(f), except that Profit and Loss shall not include items of income, gain, expense and loss that are specifically allocated, such as pursuant to Section 6.1(b) or 6.1(c).

(g) Tax Allocations. All allocations of income, Profit, gain, Loss, and expense (and all components of those items) for federal income tax purposes shall be allocated among the Partners in the same manner as such allocations of "book" income, gain, loss or deduction are allocated pursuant to this Section 6.1, except as otherwise required by Section 704(c) of the Code and Regulations Section 1.704-1(b)(4). The General Partner shall have the authority to elect the method to be used by the Partnership for allocating items of income, gain, and expense as required by Section 704(c) of the Code and such election shall be binding on all Partners.

(h) Curative Allocation. The allocations set forth in Section 6.1(b), (c) and (d) (the "Regulatory Allocations") are intended to comply with certain regulatory requirements, including the requirements of Regulations Section 1.704-1(b) and 1.704-2. Notwithstanding the provisions of Section 6.1(b),(c) and (d), the Regulatory Allocations shall be taken into account in allocating other items of income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of other items and the Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each such Partner if the Regulatory Allocations had not occurred. In applying this Section 6.1(h), a Partner's share of partnership minimum gain and partner nonrecourse debt minimum gain (within the meaning of Regulations Sections 1.704-2(g) and 1.704-2(i), respectively) at any point in time shall be treated as an amount of income or gain that has already been allocated to the Partner.

6.2 Substantial Economic Effect. It is the intent of the Partners that the allocations of Profit and Loss and items of income, gain, expense and loss under the Agreement have substantial economic effect (or be consistent with the Partners' interests in the Partnership in the case of the allocation of losses attributable to nonrecourse debt) within the meaning of Section 704(b) of the Code as interpreted by the related Regulations. Article 6 and other relevant provisions of this Agreement shall be interpreted in a manner consistent with that intent.

7. MANAGEMENT AND OPERATIONS OF BUSINESS

7.1 Management.

(a) Powers of General Partner. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership are exclusively vested in the General Partner, and no Limited Partner shall have any right to participate in or exercise control or management power over the business and affairs of the Partnership. Notwithstanding anything to the contrary in this Agreement, the General Partner may not be removed by the Limited Partners. In addition to the powers that are granted to the General Partner under any other provision of this Agreement, the General Partner shall have full power and authority to do all things deemed necessary or desirable by it to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 and to effectuate the purposes set forth in Section 3.1, including, without limitation:

(1) the making of any expenditures, the lending or borrowing of money (including, without limitation, making prepayments on loans and borrowing money to permit the Partnership to make distributions to its Partners in such amounts as will permit the General Partner (so long as the General Partner qualifies as a REIT) to avoid the payment of any federal income tax (including, for this purpose, any excise tax pursuant to Section 4981 of the Code) and to make distributions to its shareholders sufficient to permit the General Partner to maintain REIT status), the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness (including the securing of same by mortgage, deed of trust or other lien or encumbrance on the Partnership's assets) and the incurring of any obligations it deems necessary for the conduct of the activities of the Partnership; provided, that all such borrowing, incurrence of debt and prepayments shall be subject to the limitations set forth in Sections 4.5 and 4.6;

(2) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(3) the acquisition, disposition, sale, conveyance, mortgage, pledge, encumbrance, hypothecation, contribution or exchange of any assets of the Partnership or the merger or other combination of the Partnership with or into another entity on such terms as the General Partner deems proper; provided, however, that: (i) no sale, exchange, disposition or other transfer of any property of the Partnership contributed on January 2, 1997 shall occur prior to December 31, 1998 without the prior written consent of the General Partner; (ii) the sale of all or substantially all of the assets of the Partnership and a Business Combination (as defined in Section 8.7(a)) shall require the consent set forth in Section 8.7(b); and (iii) certain sales of any Designated Property (as defined in Section 8.8) may require the consent of specified persons as set forth in Section 8.8.

(4) the use of the assets of the Partnership (including, without

limitation, cash on hand) for any purpose consistent with the terms of this Agreement and on any terms it sees fit, including, without limitation, the financing of the conduct of the operations of the General Partner, the Partnership or any of the Partnership's Subsidiaries, the lending of funds to other Persons (including the Partnership's Subsidiaries) and the repayment of obligations of the Partnership and its Subsidiaries and any other Person in which it has an equity investment and the making of capital contributions to its Subsidiaries, the holding of any real, personal and mixed property of the Partnership in the name of the Partnership or in the name of a nominee or trustee (subject to Section 7.11), the creation, by grant or otherwise, of easements or servitudes, and the performance of any and all acts necessary or appropriate to the operation of the Partnership assets including, without limitation, applications for rezoning, objections to rezoning, constructing, altering, improving, repairing, renovating, rehabilitating, razing, demolishing or condemning any improvements or property of the Partnership;

(5) the negotiation, execution, and performance of any contracts, conveyances or other instruments (including with Affiliates of the Partnership to the extent provided in Section 7.7) that the General Partner considers useful or necessary to the conduct of the Partnership's operations or the implementation of the General Partner's powers under this Agreement, including, without limitation, the execution and delivery of leases on behalf of or in the name of the Partnership (including the lease of Partnership property for any purpose and without limit as to the term of the lease, whether or not such term (including renewal terms) shall extend beyond the date of termination of the Partnership and whether or not the portion so leased is to be occupied by the lessee or, in turn, subleased in whole or in part to others);

(6) the opening and closing of bank accounts, the investment of Partnership funds in securities, certificates of deposit and other instruments, and the distribution of Partnership cash or other Partnership assets in accordance with this Agreement;

(7) the establishment of one or more divisions of the Partnership, the selection and dismissal of employees of the Partnership or the General Partner (including, without limitation, employees having titles such as "president," "vice president," "secretary" and "treasurer"), and the engagement and dismissal of agents, outside attorneys, accountants, engineers, appraisers, consultants, contractors and other professionals on behalf of the General Partner or the Partnership and the determination of their compensation and other terms of employment or hiring;

(8) the maintenance of such insurance for the benefit of the Partnership and the Partners as it deems necessary or appropriate;

(9) the formation of, or acquisition of an interest in, and the contribution of property to, any further limited or general partnerships, joint ventures, limited liability companies or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contribution of property to, its Subsidiaries and any other Person in which it has an equity investment from time to time);

(10) the control of any matters affecting the rights and obligations of the Partnership, including the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation, and the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(11) the undertaking of any action in connection with the Partnership's direct or indirect investment in its Subsidiaries or any other Person (including, without limitation, the contribution or loan of funds by the Partnership to such Persons);

(12) the determination of the fair market value of any Partnership property distributed in kind using such reasonable method of valuation as it may adopt;

(13) the issuance of Partnership Units to any Subsidiary that may be necessary for such Subsidiary to satisfy such Subsidiary's obligations under the Option Plans, in exchange for the transfer to the Partnership by such Subsidiary of the price per Partnership Unit required by the Option Plans to be paid by Subsidiaries;

(14) the management, operation, leasing, landscaping, repair, alteration, demolition or improvement of any real property or improvements owed by the Partnership or any Subsidiary of the Partnership;

(15) the exercise, directly or indirectly, through any attorney-in-fact acting under a general or limited power of attorney, of any right, including the right to vote, appurtenant to any asset or investment held by the Partnership;

(16) the exercise of any of the powers of the General Partner

enumerated in this Agreement on behalf of or in connection with any Subsidiary of the Partnership or any other Person in which the Partnership has a direct or indirect interest, or jointly with any such Subsidiary or other Person;

(17) the enforcement of any rights against any Partner pursuant to representations, warranties, covenants and indemnities relating to such Partner's contribution of property or assets to the Partnership;

(18) the exercise of any of the powers of the General Partner enumerated in this Agreement on behalf of any Person in which the Partnership does not have an interest pursuant to contractual or other arrangements with such Person; and

(19) the making, execution and delivery of any and all deeds, leases, notes, deeds to secure debt, mortgages, deeds of trust, security agreements, conveyances, contracts, guarantees, warranties, indemnities, waivers, releases or legal instruments or agreements in writing necessary or appropriate in the judgment of the General Partner for the accomplishment of any of the powers of the General Partner enumerated in this Agreement.

(b) No Approval Required for Above Powers. Each of the Limited Partners agrees that the General Partner is authorized to execute, deliver and perform the above-mentioned agreements and transactions on behalf of the Partnership without any further act, approval or vote of the Partners, notwithstanding any other provision of this Agreement (except as otherwise specifically provided in paragraph (a)(3) of Section 7.1), the Act or any applicable law, rule or regulation. The execution, delivery or performance by the General Partner or the Partnership of any agreement authorized or permitted under this Agreement shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement or of any duty stated or implied by law or equity.

(c) Insurance. The General Partner may cause the Partnership to obtain and maintain casualty, liability and other insurance on the properties of the Partnership and liability insurance for the Indemnities under this Agreement in such amounts as the General Partner, in its sole and absolute discretion, deems appropriate and reasonable from time to time.

(d) Working Capital Reserves. The General Partner may cause the Partnership to establish and maintain working capital reserves in such amounts as the General Partner, in its sole and absolute discretion, deems appropriate and reasonable from time to time.

(e) No Obligations to Consider Tax Consequences to Limited Partners. In exercising its authority under this Agreement, the General Partner may, but shall be under no obligation to, take into account the tax consequences to any Partner (including the General Partner) of any action taken (or not taken) by any of them. The General Partner and the Partnership shall not have liability to a Limited Partner for monetary damages or otherwise for losses sustained, liabilities incurred or benefits not derived by such Limited Partner in connection with such decisions, provided that the General Partner has acted in good faith and pursuant to its authority under this Agreement.

7.2 Restrictions on General Partner's Authority. The General Partner may not, without the written consent of all of the Limited Partners, take any action in contravention of this Agreement, including, without limitation:

(a) taking any action that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided in this Agreement; or

(b) possessing Partnership property, or assigning any rights in specific Partnership property, for other than a Partnership purpose except as otherwise provided in this Agreement.

In addition, without the consent of any adversely affected Limited Partner, the General Partner may not perform any act that would subject a Limited Partner to liability as a general partner in any jurisdiction or any other liability except as provided in this Agreement or under the Act.

7.3 Certificate of Limited Partnership. To the extent that such action is determined by the General Partner to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate and do all the things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of California and each other jurisdiction in which the Partnership may elect to do business or own property. Subject to the terms of Section 8.5(a)(4) (Rights of Limited Partners to certain business records), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate, as it may be amended or restated from time to time, to any Limited Partner. The General Partner shall use all reasonable efforts to cause to be filed such other certificates or documents as may be reasonable and necessary or appropriate for the formation, continuation,

qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of California and any other jurisdiction in which the Partnership may elect to do business or own property.

7.4 Responsibility for Expenses.

(a) No Compensation. Except as provided in this Section 7.4 and elsewhere in this Agreement (including the provisions of Articles 5 and 6 regarding distributions, payments and allocations to which it may be entitled), the General Partner shall not be compensated for its services as general partner of the Partnership.

(b) Responsibility for Ownership and Operation Expenses. Except as provided in Section 7.13, the Partnership shall be responsible for and shall pay all expenses relating to the Partnership's ownership of its assets, and the operation of, or for the benefit of, the Partnership, and the General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole and absolute discretion, for all expenses it incurs relating to the Partnership's ownership of its assets and the operation of, or for the benefit of, the Partnership. If certain expenses are incurred for the benefit of the Partnership and other entities, those expenses will be allocated to the Partnership and the other entities in such a manner as the General Partner in its sole and absolute discretion deems fair and reasonable. Such reimbursements shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 7.8. All payments and reimbursements under this Agreement represent expenses of the Partnership incurred on its behalf, and not expenses of the General Partner, and shall be so characterized for federal income tax purposes.

(c) Responsibility for Organization or Issuance Expenses. Except as provided in Section 7.13, the Partnership shall be responsible for and shall pay (or shall reimburse the General Partner for) all expenses incurred relating to the organization of the Partnership (including expenses relating to the issuance of Units), as well as other costs of capital raising or property acquisition incurred by the Partnership or General Partner with respect to funds or properties acquired by the Partnership or by the General Partner for prompt contribution to the Partnership, all of which expenses are considered by the Partners to constitute expenses of, and for the benefit of, the Partnership.

7.5 Purchases of Shares by the General Partner. If the General Partner purchases shares in connection with a share repurchase or similar program or for the purpose of delivering those shares to satisfy an obligation under any dividend reinvestment or equity purchase program adopted by the General Partner, any employee equity purchase plan adopted by the General Partner or any similar obligation or arrangement undertaken by the General Partner in the future, the purchase price paid by the General Partner for those shares and any other expenses incurred by the General Partner in connection with that purchase shall be considered expenses of the Partnership and shall be reimbursable to the General Partner, subject to the conditions that: (i) if those shares are subsequently sold by the General Partner, the General Partner shall pay to the Partnership any proceeds received by the General Partner for those shares (provided that a transfer of shares for Partnership Units pursuant to Section 8.6 would not be considered a sale for this purpose); and (ii) if the shares are not retransferred by the General Partner within thirty (30) days after the purchase of the shares, the General Partner shall cause the Partnership to cancel a number of Partnership Units held by the General Partner equal to the number of shares purchased.

7.6 Outside Activities of the General Partner. The General Partner shall not directly or indirectly enter into or conduct any business, other than in connection with the ownership, acquisition and disposition of Partnership Interests as a General Partner or Limited Partner and the management of the business of the Partnership, the General Partner's operation as a public reporting company with securities registered under the Securities Exchange Act of 1934, as amended, its operation as a REIT, and such activities as are incidental to those activities. The General Partner shall not own any assets other than Partnership Interests, the stock of an entity qualifying as a "qualified REIT subsidiary" under Section 856(i) of the Code, all of the interests in a limited liability company, debts owed by the Partnership and such bank accounts or similar instruments as it deems necessary to carry out its responsibilities contemplated under this Agreement and the Articles of Incorporation. Notwithstanding the foregoing, the General Partner shall be permitted to own, directly or through Subsidiaries, interests in Partnership properties that do not exceed 1% of the economic interest of any property, and if appropriate for regulatory, tax, or other purposes, the General Partner also may own, directly or through Subsidiaries, interests in assets that the Partnership otherwise could acquire, if the General Partner grants to the Partnership the option to acquire the assets within a period not to exceed three years in exchange for the number of Partnership Units that would be issued if the Partnership acquired the assets at the time of acquisition by the General Partner. The General Partner and Affiliates of the General Partner may acquire Limited Partnership Interests and shall be entitled to exercise all rights of a Limited Partner relating to such Limited Partnership Interests. The provisions of this Section 7.6 shall not be construed to limit the outside activities of

Affiliates of the General Partner.

7.7 Contracts with Affiliates.

(a) Loans. The Partnership may lend or contribute to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

(b) Transfers of Assets. The Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or by so transferring the assets becomes a participant upon such terms and subject to such conditions consistent with this Agreement and applicable law.

(c) Contracts With General Partner. Except as expressly permitted by this Agreement, neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are on terms that are fair and reasonable and no less favorable to the Partnership than would be obtained from an unaffiliated third party.

(d) Employee Benefit Plans. The General Partner, in its sole and absolute discretion and without the approval of the Limited Partners, may propose and adopt on behalf of the Partnership employee benefit plans funded by the Partnership for the benefit of employees of the General Partner, the Partnership, Subsidiaries of the Partnership or any Affiliate of any of them in respect of services performed, directly or indirectly, for the benefit of the Partnership, the General Partner, or any of the Partnership's Subsidiaries, including any such plan that requires the Partnership, the General Partner or any of the Partnership's Subsidiaries to issue or transfer Partnership Units to employees.

(e) Conflict Avoidance Arrangements. The General Partner is expressly authorized to enter into, in the name and on behalf of the Partnership, a right of first opportunity arrangement, non-competition agreements and other conflict avoidance agreements with various Affiliates of the Partnership and the General Partner, on such terms as the General Partner, in its sole and absolute discretion, believes are advisable.

7.8 Indemnification.

(a) General. Except as provided in Section 7.13, the Partnership shall indemnify an Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this Section 7.8(a). The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee did not meet the required standard of conduct set forth in this Section 7.8(a). Any indemnification pursuant to this Section 7.8 shall be made only out of the assets of the Partnership. Notwithstanding the foregoing provisions, the General Partner shall be entitled to reimbursement by the Partnership for any amounts paid by it in satisfaction of indemnification obligations owed by the General Partner to present or former directors of the General Partner, as provided for in or pursuant to the Articles of Incorporation and By-Laws of the General Partner or any similar indemnification agreements between the General Partner and such persons.

(b) In Advance of Final Disposition. Except as provided in Section 7.13, reasonable expenses incurred by an Indemnitee who is a party to a proceeding may be paid or reimbursed by the Partnership in advance of the final disposition of the proceeding upon receipt by the Partnership of (a) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this Section 7.8 has been met, and (b) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct was not met.

(c) No Effect on Other Rights. The indemnification provided by this Section 7.8 shall be in addition to any other rights to which an Indemnitee or

any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity unless otherwise provided in a written agreement pursuant to which such Indemnitee is indemnified.

(d) Insurance. The Partnership may purchase and maintain insurance, on behalf of the Indemnities and such other Persons as the General Partner shall in its sole and absolute discretion determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement or under applicable law.

(e) Employee Benefit Plans. For purposes of this Section 7.8, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute fines within the meaning of Section 7.8(a); and actions taken or omitted by the Indemnitee with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose that is not opposed to the best interests of the Partnership.

(f) No Personal Liability for Limited Partners. In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) Interested Transactions. An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.8 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) Binding Effect. The provisions of this Section 7.8 are for the benefit of the Indemnities, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) Effect of Amendment. Any amendment, modification or repeal of this Section 7.8 or any provision of this Agreement shall be prospective only and shall not in any way affect the rights of an Indemnitee under this Section 7.8 as in effect immediately prior to such amendment modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

7.9 Liability of the General Partner.

(a) General. Notwithstanding anything to the contrary set forth in this Agreement, the General Partner shall not be liable for monetary damages to the Partnership, any Partners or any Assignees for losses sustained, liabilities incurred or benefits not derived as a result of errors in judgment or of any act or omissions if the General Partner acted in good faith.

(b) No Obligation to Consider Interests of Limited Partners. The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership and the General Partner's shareholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners or Assignees) in deciding whether to cause the Partnership to take (or decline to take) any actions that the General Partner has undertaken in good faith on behalf of the Partnership, including the disposition of properties of the Partnership, and that the General Partner shall not be liable for monetary damages for losses sustained, liabilities incurred, or benefits not derived by Limited Partners in connection with such decisions provided the General Partner does not violate the terms of any written agreement between the Partnership and one or more Limited Partners.

(c) Acts of Agents. Subject to its obligations and duties as General Partner set forth in Section 7.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it under this Agreement either directly or indirectly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

(d) Effect of Amendment. Any amendment, modification or repeal of this Section 7.9 or any provision of this Agreement shall be prospective only and shall not in any way affect the limitations on the General Partner's liability to the Partnership and the Limited Partners under this Section 7.9 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such

claims may arise or be asserted.

(e) Limitation of Liability of Shareholders, Directors and Officers of the General Partner. Any obligation or liability of the General Partner that may arise at any time under this Agreement or any obligation or liability that may be incurred by it pursuant to any other instrument, transaction or undertaking contemplated by this Agreement shall be satisfied, if at all, out of the General Partner's assets only. No such obligation or liability shall be personally binding upon, nor shall resort for the enforcement of any such obligation or liability be had to, the property of any of its shareholders, directors, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort or otherwise.

7.10 Other Matters Concerning the General Partner.

(a) Reliance on Documents. The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Reliance on Consultants and Advisers. The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers, architects, engineers, environmental consultants, and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion of such Persons as to matters that such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) Action Through Officers and Attorneys. The General Partner shall have the right, in respect of any of its powers or obligations under this Agreement, to act through any of its duly authorized officers and a duly appointed attorney or attorneys-in-fact. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform all and every act and duty that is permitted or required to be done by the General Partner under this Agreement.

(d) Actions to Maintain REIT Status or Avoid Taxation of General Partner. Notwithstanding any other provisions of this Agreement or the Act, any action of the General Partner on behalf of the Partnership or any decision of the General Partner to refrain from acting on behalf of the Partnership, undertaken in the good faith belief that such action or omission is necessary or advisable in order (i) to protect the ability of the General Partner to continue to qualify as a REIT or (ii) to avoid the General Partner incurring any taxes under Section 857 or Section 4981 of the Code, is expressly authorized under this Agreement and is deemed approved by all of the Limited Partners.

7.11 Title to Partnership Assets. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion of those assets. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine, including Affiliates of the General Partner. The General Partner declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner or any nominee or Affiliate of the General Partner shall be held by the General Partner for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its best efforts to cause beneficial and record title to such assets to be vested in the Partnership as soon as reasonably practicable. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which legal title to such Partnership assets is held.

7.12 Reliance by Third Parties. Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner has full power and authority, without consent or approval of any other Partner or Person, to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner in connection with any such dealing. In no event shall any Person dealing with the General Partner or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying on or claiming under those instruments that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person

executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

7.13 Treatment of and Limitation on Payments to General Partner.

(a) Reimbursement and Indemnification Payments. If and to the extent any payments to the General Partner pursuant to Sections 7.4 or 7.8 constitute gross income to the General Partner (as opposed to the repayment of advances made on behalf of the Partnership), those amounts shall constitute guaranteed payments within the meaning of Section 707(c) of the Code, and shall be so treated by the Partnership and all Partners, and shall not be treated as distributions for purposes of computing the Partners' Capital Accounts.

(b) Limitation on Payments to General Partner. To the extent that the amount paid or credited to the General Partner or its officers, directors, employees or agents pursuant to Section 7.4 or Section 7.8 would constitute gross income of the General Partner that is not described in Sections 856(c)(2) or 856(c)(3) of the Code (a "GP Payment") then, notwithstanding any other provisions of this Agreement, the amount of such GP Payment for any fiscal year shall not exceed the lesser of:

(i) an amount equal to the excess, if any, of

(1) four and eight tenths percent (4.8%) of the General Partner's total gross income (not including any GP Payments or gross income from prohibited transactions) for the fiscal year over

(2) the amount of gross income (within the meaning of Section 856(c)(2) of the Code) derived by the General Partner from sources other than those described in subsections (A) through (H) of Section 856(c)(2) of the Code (taking into account Section 856(c)(5)(G), but not including the amount of any GP Payments or gross income from prohibited transactions); or

(ii) an amount equal to the excess, if any, of

(1) twenty-four and eight tenths percent (24.8%) of the General Partner's total gross income (not including any GP Payments or gross income from prohibited transactions) for the fiscal year over

(2) the amount of gross income (within the meaning of Section 856(c)(3) of the Code) derived by the General Partner from sources other than those described in subsections (A) through (I) of Section 856(c)(3) of the Code (but not including the amount of any GP Payments or gross income from prohibited transactions);

Notwithstanding the foregoing, GP Payments in excess of the amounts set forth in paragraphs (i) and (ii) may be made if and to the extent the General Partner, as a condition precedent, obtains an opinion of tax counsel that the receipt of such excess amounts would not adversely affect the General Partner's ability to qualify as a REIT. To the extent GP Payments may not be made in a year due to the above limitations, such GP Payments shall carry over and be treated as arising in the following year(s) (subject again to limitation as set forth above in those years), for a maximum of seven years (treating amounts payable as first being paid from the earliest year such amounts were carried over, and the next succeeding years in chronological order). If any GP Payment is carried over for such seven-year period and not paid, such amount shall no longer be an obligation of the Partnership. If a GP Payment is inadvertently made in an amount in excess of the limitations in this Section 7.13(b), such excess payments shall be treated as a permitted loan from the Partnership to the General Partner, to be repaid as soon as practicable following discovery of the overpayment.

8. RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

8.1 Limitation of Liability. The Limited Partners shall have no liability under this Agreement except as expressly provided in this Agreement, including Section 10.5 (Partnership withholding obligations), or under the Act.

8.2 Management of Business. No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the Partnership or any of their Affiliates, in their capacity as such) shall take part in the operation, management or control (within the meaning of the Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner, the

Partnership or any of their Affiliates, in their capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

8.3 Outside Activities of Limited Partners. Subject to any agreements entered into pursuant to Section 7.7(e) and subject to any other agreements entered into by a Limited Partner or its Affiliates with the General Partner, the Partnership or a Subsidiary, the following rights shall govern outside activities of Limited Partners:

(a) any Limited Partner (other than the General Partner) and any officer, director, employee, agent, trustee, Affiliate or shareholder of any Limited Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct or indirect competition with the Partnership;

(b) neither the Partnership nor any Partners shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee;

(c) none of the Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established by this Agreement in any business ventures of any other Person, other than the General Partner, and such Persons shall have no obligation pursuant to this Agreement to offer any interest in any such business ventures to the Partnership, any Limited Partner or any such other Person, even if such opportunity is of a character that, if presented to the Partnership, any Limited Partner or such other Person, could be taken by such Person;

(d) the fact that a Limited Partner may encounter opportunities to purchase, otherwise acquire, lease, sell or otherwise dispose of real or personal property and may take advantage of such opportunities or introduce such opportunities to entities in which it has or has not any interest, shall not subject such Partner to liability to the Partnership or any of the other Partners on account of the lost opportunity; and

(e) except as otherwise specifically provided in this Agreement, nothing contained in this Agreement shall be deemed to prohibit a Limited Partner or any Affiliate of a Limited Partner from dealing, or otherwise engaging in business, with Persons transacting business with the Partnership or from providing services relating to the purchase, sale, rental, management or operation of real or personal property (including real estate brokerage services) and receiving compensation for those activities, from any Persons who have transacted business with the Partnership or other third parties.

8.4 Priority Among Limited Partners. No Partner (Limited or General) or Assignee shall have priority over any other Partner (Limited or General) or Assignee either as to the return of capital contributions or, except to the extent provided by Article 6 or as permitted by Section 4.2, or otherwise expressly provided in this Agreement, as to profits, losses or distributions.

8.5 Rights of Limited Partners Relating to the Partnership.

(a) Copies of Business Records. In addition to other rights provided by this Agreement or by the Act, including rights set forth in Article 14, and except as limited by Section 8.5(c), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon written demand with a statement of the purpose of such demand and at such Limited Partner's own expense:

(1) to obtain a copy of the most recent annual and quarterly reports filed with the Securities and Exchange Commission by the General Partner pursuant to the Securities Exchange Act of 1934, as amended;

(2) to obtain a copy of the Partnership's federal, state and local income tax returns for each Partnership Year;

(3) to obtain a current list of the name and last known business, residence or mailing address of each Partner;

(4) to obtain a copy of this Agreement and the Certificate and all amendments, together with executed copies of all powers of attorney pursuant to which this Agreement, the Certificate and all amendments have been executed; and

(5) to obtain true and full information regarding the amount of cash and a description and statement of any other property or services contributed by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner.

(b) Notification of Changes in Unit Adjustment Factor. The Partnership shall notify each Limited Partner in writing of any change to the

number of Units as a result of a change to the Unit Adjustment Factor within ten (10) Business Days of the date such change becomes effective.

(c) Confidential Information. Notwithstanding any other provision of this Section 8.5, the General Partner may keep confidential from the Limited Partners, for such period of time as the General Partner determines in its sole and absolute discretion to be reasonable, any Partnership information that (i) the General Partner believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or (ii) the Partnership is required by law or by agreements with unaffiliated third parties to keep confidential.

8.6 Redemption Right.

(a) General. Beginning one year after the date on which each Limited Partner is admitted to the Partnership (except as otherwise contractually agreed to by the General Partner), each Limited Partner (other than the General Partner) shall have the right (the "Redemption Right") to cause the Partnership to purchase on the Specified Redemption Date all or any of such Limited Partner's Units for cash equal to the Redemption Amount, provided however, that the General Partner has the authority to establish different payment schedules to satisfy a Limited Partner's Redemption Right at the time the Units that are the subject of such Redemption Right are issued. The Redemption Right may be exercised by a Limited Partner (a "Redeeming Partner") at any time and from time to time by delivering a Notice of Redemption to the General Partner not less than ten (10) days prior to such redemption, provided that a Limited Partner may not exercise the Redemption Right for less than one thousand (1,000) Partnership Units unless such Redeeming Partner then holds less than one thousand (1,000) Partnership Units, in which event the Redeeming Partner must exercise the Redemption Right for all of the Partnership Units held by such Redeeming Partner. The Assignee of any Limited Partner may exercise the rights of the Limited Partner pursuant to this Section 8.6, and the Limited Partner shall be deemed to have assigned those rights to the Assignee and shall be bound by the exercise of the rights by the Limited Partner's Assignee, and payments shall be made directly to the Assignee and not to the Limited Partner.

(b) If Delivery of Common Shares Is Prohibited, Etc. Notwithstanding the provisions of Section 8.6(a) and (d), a Partner shall not be entitled to exercise the Redemption Right pursuant to Section 8.6(a) if (i) the delivery of Common Shares to such Partner on the Specified Redemption Date would be prohibited under the Articles of Incorporation, or (ii) in the opinion of counsel to the General Partner, there is a significant risk that a delivery of Common Shares to the Partner would cause the General Partner to no longer qualify as a REIT, would constitute a violation of applicable securities laws, or would result in the Partnership no longer being treated as a partnership for federal income tax purposes. In addition, the consummation of a redemption shall be subject to the expiration or termination of the applicable waiting period, if any, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(c) Section 16 Considerations. If a Redemption Right is exercised by a Redeeming Partner who is a "reporting person" within the meaning of Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the General Partner will promptly notify such Redeeming Partner as to whether the Redemption Right will be satisfied with the payment of cash or through the delivery of Common Shares. If the Partnership or the General Partner elects to satisfy the Redemption Right with the payment of cash, the Redeeming Partner shall have the right to either withdraw its exercise of the Redemption Right, or delay the consummation of the redemption to the extent necessary to avoid a "short-swing" profit under Section 16(b) of the Exchange Act.

(d) General Partner Assumption of Redemption Right.

(1) Subject to the other provisions of this Section 8.6 and Section 11.3 (Limited Partners' rights to transfer), beginning on the date one year after a Limited Partner's admission to the Partnership (except as otherwise contractually agreed to by the General Partner), the General Partner may assume directly and satisfy the obligations of the Partnership as to a Limited Partner's Redemption Right by paying to a Redeeming Partner either the Shares Amount, or cash equal to the Redemption Amount as of the Specified Redemption Date, with the choice of consideration to be determined at the sole option of the General Partner. If the General Partner shall exercise and perform its right to satisfy the Redemption Right in this manner, the Partnership shall have no obligation to pay any amount to the Redeeming Partner with respect to such Redeeming Partner's exercise of the Redemption Right, and each of the Redeeming Partner, the Partnership, and the General Partner shall treat the transaction between the General Partner and the Redeeming Partner as a sale of the Redeeming Partner's Partnership Units to the General Partner for federal and state income tax purposes. Each Redeeming Partner agrees to execute such documents as the General Partner may reasonably require in connection with the payment of the Redemption Amount. The General Partner shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting the exchange of Partnership Units for Common Shares, such number of Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Partnership Units, and the exercise or conversion

of all other rights to acquire Common Shares. No Limited Partner shall, solely by virtue of being the holder of one or more Partnership Units, be deemed to be a shareholder of or have any other interest in the General Partner.

(2) Each Redeeming Partner agrees to execute such documents as the General Partner may reasonably require in connection with, and as a condition of, the issuance of Common Shares upon exercise of the Redemption Right, including, without limitation, executing and delivering an investment representation letter with respect to the matters set forth in Section 3.4(c) and related matters.

8.7 Extraordinary Transactions.

(a) The General Partner may not engage in any merger, consolidation or other combination with or into another person or sale of all or substantially all of its assets, or any reclassification, or any recapitalization (other than stock splits and stock dividends or other events described in the definition of "Unit Adjustment Factor") or change of outstanding Common Shares (a "Business Combination"), unless (i) the Limited Partners receive, or have the opportunity to receive, the same consideration per Unit as holders of Common Shares receive per Common Share in the transaction (without regard to tax considerations), or (ii) Limited Partners (other than the General Partner) holding at least 60% of the Units held by Limited Partners (other than the General Partner) vote to approve the Business Combination.

(b) In addition to the requirements of Section 8.7(a), the General Partner will not consummate a Business Combination in which the General Partner conducts a vote of the shareholders of the General Partner unless the matter is also submitted to a vote of the Partners. For purposes of the Partnership vote, (i) each holder of Units (including the General Partner, as to its limited and general partnership interests) shall be entitled to a number of votes equal to the total votes to which the holder would have been entitled in the vote of the General Partner's shareholders if the holder's Units had been exchanged for Common Shares upon the exercise of a Redemption Right, (ii) in the Partnership vote, the General Partner shall be deemed to vote all Units it holds (representing both its general and limited partnership interests) in proportion to the manner in which the General Partner's shareholders voted (disregarding shareholders who did not vote), and (iii) the Business Combination shall be deemed approved by the Partnership if the votes so recorded (the deemed vote with respect to the General Partner's interest and the actual vote of the other holders of Units) satisfy the standard for a favorable vote of the shareholders of the General Partner.

(c) Notwithstanding the provisions of Section 8.7(a) and (b), the General Partner shall be permitted, without compliance with the requirements of Section 8.7(a) or (b): (i) to transfer all or part of its partnership interest to an entity wholly owned by the General Partner, or if the General Partner is wholly owned by another entity (the "Parent"), to transfer all or part of its General Partner partnership interest to the Parent, (ii) to merge into any entity wholly-owned by the General Partner or with any parent entity that wholly owns the General Partner (in either such case no change shall be made to the Unit Adjustment Factor as a result of that transaction and the surviving entity shall be treated as was the General Partner), and (iii) to merge into Public Storage Properties XI, Inc. (in which case the Unit Adjustment Factor shall be adjusted as provided with respect to a Successor Entity to take into account the ratio into which shares of the General Partner will be converted into shares of Public Storage Properties XI, Inc.).

8.8 Consent of Certain Limited Partners. Each of the properties listed on Exhibit D (as well as any subsequently acquired property, the federal income tax basis of which is determined by reference to the federal income tax basis of a listed property, such as a property acquired in a "like-kind exchange" for a listed property) is referred to as a "Designated Property." The Partnership may not sell or otherwise dispose of any Designated Property during the ten year period commencing on the date of the contribution to the Partnership of that Designated Property in a transaction that will cause gain recognition to the contributing partner, without the prior written consent of Public Storage, Inc. The limitation on disposition of the preceding sentence shall not apply if, at the time of the disposition, Public Storage, Inc. and its affiliated partnerships then own less than 30% of the Units owned as of the date of this Agreement. At the time of any subsequent contributions of property to the Partnership, the General Partner may agree with the contributor to treat the property as a Designated Property that may not be sold or disposed of by the Partnership without the contributor's consent for a period to be agreed upon by the General Partner and the contributor.

9. BOOKS, RECORDS, ACCOUNTING AND REPORTS

9.1 Records and Accounting. The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including, without limitation, all books and records necessary to provide to the Limited Partners any information, lists and copies of documents required to be provided pursuant to Section 9.3. Any records maintained by or on behalf of the Partnership in the regular course of its business may be kept on, or be in the form of, punch cards, magnetic

tape, photographs, micrographics or any other information storage device; provided that the records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained for financial purposes on an accrual basis in accordance with generally accepted accounting principles and for tax reporting purposes on the accrual basis.

9.2 Fiscal Year. The fiscal year of the Partnership shall be the calendar year.

9.3 Reports.

(a) Annual Reports. As soon as practicable, but in no event later than 120 days after the close of each Partnership Year, the General Partner shall cause to be mailed to each Limited Partner as of the close of the Partnership Year, an annual report containing financial statements of the Partnership, or of the General Partner if such statements are prepared solely on a consolidated basis with the General Partner, for such Partnership Year, presented in accordance with generally accepted accounting principles, such statements to be audited by a nationally recognized firm of independent public accountants selected by the General Partner.

(b) Quarterly Reports. If the General Partner distributes quarterly reports to its shareholders, as soon as practicable, but in no event later than 60 days after the close of each calendar quarter (except the last calendar quarter of each year), the General Partner shall cause to be mailed to each Limited Partner as of the last day of the calendar quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner, if such statements are prepared solely on a consolidated basis with the General Partner, and such other information as may be required by applicable law or regulation, or as the General Partner determines to be appropriate.

10. TAX MATTERS

10.1 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items required of the Partnership for federal and state income tax purposes and shall use all reasonable efforts to furnish, within 90 days of the close of each taxable year, the tax information reasonably required by the General Partner and the Limited Partners for federal and state income tax reporting purposes. The Limited Partners shall promptly provide the General Partner with such information relating to the Contributed Properties, including tax basis and other relevant information, as may be reasonably requested by the General Partner from time to time.

10.2 Tax Elections. Except as otherwise provided in this Agreement, the General Partner shall, in its sole and absolute discretion, determine whether to make any available election pursuant to the Code; including without limitation, the election under Section 754 of the Code in accordance with applicable regulations. The General Partner shall have the right to seek to revoke any such election (including, without limitation, the election under Section 754 of the Code) upon the General Partner's determination in its sole and absolute discretion that such revocation is in the best interests of the Partners.

10.3 Tax Matters Partner.

(a) General. The General Partner shall be the "tax matters partner" of the Partnership for federal income tax purposes. Pursuant to Section 6223(c) of the Code, upon receipt of notice from the IRS of the beginning of an administrative proceeding with respect to the Partnership, the tax matters partner shall furnish the IRS with the name, address and profit interest of each of the Limited Partners; provided, however, that such information is provided to the Partnership by the Limited Partners. The Limited Partners shall provide such information to the Partnership as the General Partner shall reasonably request.

(b) Powers. The tax matters partner is authorized, but not required:

(1) to enter into any settlement with the IRS with respect to any administrative or judicial proceedings for the adjustment of Partnership items required to be taken into account by a Partner for income tax purposes (such administrative proceedings being referred to as a "tax audit" and such judicial proceedings being referred to as "judicial review"), and in the settlement agreement the tax matters partner may expressly state that such agreement shall bind all Partners, except that such settlement agreement shall not bind any Partner (a) who (within the time prescribed pursuant to the Code and Regulations) files a statement with the IRS providing that the tax matters partner shall not have the authority to enter into a settlement agreement on behalf of such Partner or (b) who is a "notice partner" (as defined in Section 6231 of the Code) or a member of a "notice group" (as defined in Section 6223(b)(2) of the Code);

(2) in the event that a notice of a final administrative adjustment at the Partnership level of any item required to be taken into account by a partner for tax purposes (a "final adjustment") is mailed or otherwise given to the tax matters partner, to seek judicial review of such

final adjustment, including the filing of a petition for readjustment with the Tax Court or the United States Claims Court, or the filing of a complaint for refund with the District Court of the United States for the district in which the Partnership's principal place of business is located;

(3) to intervene in any action brought by any other Partner for judicial review of a final adjustment;

(4) to file a request for an administrative adjustment with the IRS at any time and, if any part of such request is not allowed by the IRS, to file an appropriate pleading (petition, complaint or other document) for judicial review with respect to such request;

(5) to enter into an agreement with the IRS to extend the period for assessing any tax that is attributable to any item required to be taken into account by a Partner for tax purposes, or an item affected by such item; and

(6) to take any other action on behalf of the Partners of the Partnership in connection with any tax audit or judicial review proceeding to the extent permitted by applicable law or regulations.

(c) Electing Large Partnership. The General Partner, in its sole discretion, may cause the Partnership to elect to be an "electing large partnership" under Section 775 of the Code. In that case, the General Partner shall be the person authorized to act on behalf of the Partnership in any federal or related state income tax proceeding for purposes of Section 6255 of the Code and shall be authorized to undertake any and all actions on behalf of the Partnership to the maximum extent contemplated under Sections 6240 through 6255 of the Code (including, without limitation, to bind the Partnership and all Partners with respect to any settlement of any proceeding).

(d) Reimbursement. The tax matters partner shall receive no compensation for its services. All third-party costs and expenses incurred by the tax matters partner in performing its duties as such (including legal and accounting fees) shall be borne by the Partnership. Nothing in this Agreement shall be construed to restrict the Partnership from engaging an accounting firm and a law firm to assist the tax matters partner in discharging its duties under this Agreement, so long as the compensation paid by the Partnership for such services is reasonable. The taking of any action and the incurring of any expense by the General Partner pursuant to this Section 10.3, except to the extent required by law, is a matter in the sole and absolute discretion of the General Partner, and the provisions relating to indemnification of the General Partner set forth in Section 7.8 shall be fully applicable to the General Partner in its capacity as such.

10.4 Organization Expenses. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership ratably over a 60-month period as provided in Section 709 of the Code.

10.5 Withholding. Each Limited Partner authorizes the Partnership to withhold from or pay on behalf of or with respect to such Limited Partner any amount of federal, state, local, or foreign taxes that the General Partner determines that the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Limited Partner pursuant to this Agreement, including, without limitation, any taxes required to be withheld or paid by the Partnership pursuant to Sections 1441, 1442, 1445 or 1446 of the Code. Any amount paid on behalf of or with respect to a Limited Partner shall constitute a loan by the Partnership to such Limited Partner, which loan shall be repaid by such Limited Partner within 15 days after notice from the General Partner that such payment must be made unless (a) the Partnership withholds such payment from a distribution that would otherwise be made to the Limited Partner or (b) the General Partner determines, in its sole and absolute discretion, that such payment may be satisfied out of the available funds of the Partnership that would, but for such payment, be distributed to the Limited Partner. Any amounts withheld pursuant to the foregoing clauses (a) or (b) shall be treated as having been distributed to such Limited Partner. Each Limited Partner unconditionally and irrevocably grants to the Partnership a security interest in such Limited Partner's Partnership Interest to secure such Limited Partner's obligation to pay to the Partnership any amounts required to be paid pursuant to this Section 10.5. If a Limited Partner fails to pay any amounts owed to the Partnership pursuant to this Section 10.5 when due, the General Partner may, in its sole and absolute discretion, elect to make the payment to the Partnership on behalf of such defaulting Limited Partner, and in such event shall be deemed to have loaned such amount to such defaulting Limited Partner, and shall succeed to all rights and remedies of the Partnership as against such defaulting Limited Partner (including, without limitation, the right to receive distributions otherwise payable by the Partnership to such defaulting Limited Partner). Any amounts payable by a Limited Partner under this provision shall bear interest at the base rate on corporate loans at large United States money center commercial banks, as published from time to time in the Wall Street Journal, plus four percentage points (but not higher than the maximum lawful rate) from the date such amount is due (i.e., 15 days after demand) until such amount is paid in full. Each Limited Partner shall take such actions as the Partnership or the General Partner shall request in order to perfect or enforce the security

interest created under this provision.

11. TRANSFERS AND WITHDRAWALS

11.1 Transfer.

(a) Definition. The term "transfer," when used in this Article 11 with respect to a Partnership Unit, shall be deemed to refer to a transaction by which the General Partner purports to assign its Partnership Interest to another Person or by which a Limited Partner purports to assign its Limited Partnership Interest to another Person, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise. The term "transfer" when used in this Article 11 does not include any redemption or repurchase of Partnership Units by the Partnership from a Partner or acquisition of Partnership Units from a Limited Partner by the General Partner pursuant to Section 8.6 or otherwise. No part of the interest of a Limited Partner shall be subject to the claims of any creditor, any spouse for alimony or support, or to legal process, and may not be voluntarily or involuntarily alienated or encumbered except as may be specifically provided for in this Agreement.

(b) Requirements. No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article 11. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article 11 shall be null and void.

11.2 Transfer of General Partner's Partnership Interest.

(a) General. The General Partner may not withdraw as a General Partner or transfer its General Partnership Interest except in connection with a transaction described in Section 8.7.

(b) Transfer to Partnership. The General Partner may transfer Limited Partnership Interests held by it to the Partnership.

11.3 Limited Partners' Rights to Transfer.

(a) General. Except as provided in this Agreement, a Limited Partner may not transfer its Partnership Interest without the prior written consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion. Notwithstanding the foregoing, subject to the provisions of subsections (d), (e), (f) and (g) of this Section 11.3, and Sections 11.4 and 11.6, a Limited Partner may, without the prior written consent of the General Partner

(i) transfer all or any portion of its Partnership Interest to the General Partner,

(ii) transfer all or any portion of its Partnership Interest to an Affiliate, another original Limited Partner or to an "Immediate Family" member (i.e., as to any natural Person, such natural Person's spouse, parents, descendants, nephews, nieces, brothers and sisters),

(iii) if such Limited Partner is a natural person, transfer all or any portion of his or her Partnership Interest upon his or her death to such Limited Partner's estate, executor, administrator or personal representative or to such Limited Partner's beneficiaries pursuant to a devise or bequest or by the laws of descent and distribution or to a trust of which such Limited Partner is a settlor or co-settlor with a member of his or her Immediate Family and the beneficiaries of which include no Person other than such Limited Partner and/or such Limited Partner's Immediate Family,

(iv) transfer all or any portion of its Partnership Interest pursuant to the exercise of the Redemption Right,

(v) pledge all or any portion of its Partnership Interest to a lending institution, that is not an Affiliate of such Limited Partner, as collateral or security for a bona fide loan or other extension of credit, and transfer such pledged Partnership Interest to such lending institution in connection with the exercise of remedies under such loan or extension or credit, and

(vi) if such Limited Partner is a corporation, partnership or other business entity, transfer all or any portion of its Partnership Interest to one or more entities that are wholly owned and controlled by such Limited Partner or by distributing Partnership Interests in a liquidation, winding up or otherwise without consideration to the equity owners of such corporation, partnership or business entity.

In order to effect any transfer, the Limited Partner must deliver to the General Partner a duly executed copy of the instrument making such transfer and such instrument must evidence the written acceptance by the assignee of, and compliance with, all of the terms and conditions of this Agreement and represent that such assignment was made in accordance with all applicable laws and

regulations.

(b) General Partner Right Of First Refusal. A Partner shall give to the General Partner written notice of any proposed transfer that is not otherwise permitted pursuant to Section 11.3(a) above, which notice shall state (i) the identity of the proposed transferee, and (ii) the amount and type of consideration proposed to be received for the transferred Partnership Units. The General Partner shall have ten (10) days within which to give the transferring Partner notice of its election to acquire the Partnership Units on the proposed terms. If the General Partner does not so elect, the transferring Partner may transfer such Partnership Units to a third party, on economic terms no more favorable to the transferee than the proposed terms, subject to the other conditions of this Section 11.3.

(c) Assumption of Obligations. It is a condition to any transfer otherwise permitted under this Agreement (excluding Pledges of a Partnership Interest, but including any transfer of the pledged Partnership Interest, whether to the secured party or otherwise, pursuant to the secured party's exercise of its remedies under such Pledge or the related loan or extension of credit) that the transferee assumes by operation of law or express agreement all of the obligations of the transferor Limited Partner under this Agreement with respect to such transferred Partnership Interest and no such transfer (other than pursuant to a statutory merger or consolidation in which all obligations and liabilities of the transferor Partner are assumed by a successor corporation by operation of law) shall relieve the transferor Partner of its obligations under this Agreement without the approval of the General Partner, in its reasonable discretion. Notwithstanding the foregoing, any transferee of any transferred Partnership Interest shall be subject to any and all ownership limitations contained in the Articles of Incorporation. Any transferee, whether or not admitted as a Substituted Limited Partner, shall take subject to the obligations of the transferor under this Agreement. Unless admitted as a Substitute Limited Partner, no transferee, whether by a voluntary transfer, by operation of law or otherwise, shall have rights under this Agreement, other than the rights of an Assignee as provided in Section 11.5.

(d) Incapacitated Limited Partners. If a Limited Partner is subject to Incapacity, the executor, administrator, trustee, committee, guardian, conservator or receiver of such Limited Partner's estate shall have all the rights of a Limited Partner, but not more rights than those enjoyed by other Limited Partners for the purpose of settling or managing the estate and such power as the Incapacitated Limited Partner possessed to transfer all or any part of his or her interest in the Partnership. The Incapacity of a Limited Partner, in and of itself, shall not dissolve or terminate the Partnership.

(e) Transfers Contrary to Securities Laws. The General Partner may prohibit any transfer otherwise permitted under Section 11.3 by a Limited Partner of its Partnership Units if, in the opinion of legal counsel to the Partnership, such transfer would require filing of a registration statement under the Securities Act or would otherwise violate any federal or state securities laws or regulations applicable to the Partnership or the Partnership Units.

(f) Transfers Affecting Tax Status. No transfer by a Limited Partner of its Partnership Units (or any economic or other interest, right or attribute) may be made to any Person, including a redemption or exchange pursuant to Section 8.6, if (i) in the opinion of legal counsel for the Partnership, it would cause a termination of the Partnership for federal or state income tax purposes that the General Partner believes would have a material adverse effect or result in the Partnership being treated for federal income tax purposes as an association taxable as a corporation, or (ii) such transfer is effectuated through an "established securities market" or a "secondary market (or the substantial equivalent)" within the meaning of Section 7704 of the Code. Notwithstanding anything to the contrary in this Agreement, no interests in the Partnership shall be issued in a transaction that is (or transactions that are) registered or required to be registered under the Securities Act.

(g) Transfers to Holders of Nonrecourse Liabilities. No transfer or pledge of any Partnership Units may be made to a lender to the Partnership or any Person who is related (within the meaning of Section 1.752-4(b) of the Regulations) to any lender to the Partnership whose loan constitutes a "nonrecourse liability" (within the meaning of Section 1.752-1(a)(2) of the Regulations) without the consent of the General Partner, in its sole and absolute discretion, provided that as a condition to any such consent the lender will be required to enter into an arrangement with the Partnership and the General Partner to exchange or redeem for the Redemption Amount any Partnership Units that such lender or related person owns or would acquire upon foreclosure of a security interest simultaneously with the time at which such lender would be deemed to be a partner in the Partnership for purposes of allocating liabilities to such lender under Section 752 of the Code.

(h) Other Restrictions. In addition to any other restrictions on transfer contained in this Agreement, in no event may a transfer or assignment of a Partnership Interest by any Partner (including a transfer upon exercise of the Redemption Right) be made without the consent of the General Partner in its sole and absolute discretion:

(i) to any person or entity who lacks the legal right, power or capacity to own a Partnership Interest;

(ii) in violation of applicable law;

(iii) of any component portion of a Partnership Interest, such as the Capital Account, or rights to distributions, separate and apart from all other components of a Partnership Interest,

(iv) in the event such transfer adversely affects the General Partner's ability to qualify as a REIT or could subject the General Partner to any additional taxes under Section 857 or Section 4981 of the Code;

(v) if such transfer would cause the Partnership to become, with respect to any employee benefit plan subject to Title I of ERISA, a "party-in-interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined in Section 4975(c) of the Code);

(vi) if such transfer would, in the opinion of counsel to the Partnership, cause any portion of the assets of the Partnership to constitute assets of any employee benefit plan pursuant to Department of Labor Regulations Section 2510.2-101; or

(vii) if such transfer subjects the Partnership to regulation under the Investment Partnership Act of 1940, the Investment Advisors Act of 1940 or the Employee Retirement Income Security Act of 1974, each as amended.

11.4 Substituted Limited Partners.

(a) Consent of General Partner Required. No Limited Partner shall have the right to substitute a transferee as a Limited Partner in its place without the prior written consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion. The General Partner's failure or refusal to permit a transferee of any such interests to become a Substituted Limited Partner shall not give rise to any cause of action against the Partnership or any Partner.

(b) Rights and Duties of Substituted Limited Partners. A transferee who has been admitted as a Substituted Limited Partner in accordance with this Article 11 shall have all the rights and powers and be subject to all the restrictions and liabilities of a Limited Partner under this Agreement.

(c) Amendment of Exhibit A. Upon the admission of a Substituted Limited Partner, the General Partner shall amend Exhibit A to reflect the name, address, number of Partnership Units, and Percentage Interest of such Substituted Limited Partner and to eliminate or adjust, if necessary, the name, address and interest of the predecessor of such Substituted Limited Partner.

11.5 Assignees. If the General Partner, in its sole and absolute discretion, does not consent to the admission of any permitted transferee under Section 11.4 as a Substituted Limited Partner, such transferee shall be considered an Assignee for purposes of this Agreement. An Assignee shall be entitled to all the rights of an assignee of a limited partnership interest under the Act, including the right to receive distributions from the Partnership and the share of Profit, Loss, and gain attributable to the Partnership Units assigned to such transferee, but shall not be deemed to be an owner of Partnership Units for any other purpose under this Agreement, and shall not be entitled to vote such Partnership Units in any matter presented to the Limited Partners for a vote (such vote remaining with the transferor Limited Partner). If any such transferee desires to make a further assignment of any such Partnership Units, such transferee shall be subject to all the provisions of this Article 11 to the same extent and in the same manner as any Limited Partner desiring to make an assignment of Partnership Units.

11.6 General Provisions.

(a) Withdrawal of Limited Partner. No Limited Partner may withdraw from the Partnership other than as a result of a permitted transfer of all of such Limited Partner's Partnership Units in accordance with this Article 11 or pursuant to a redemption of all of its Partnership Units upon exercise of the Redemption Right.

(b) Transfer of All Partnership Units by Limited Partner. Any Limited Partner who shall transfer all of its Partnership Units in a transfer permitted pursuant to this Article 11 or pursuant to the Redemption Right shall cease to be a Limited Partner, except as otherwise provided in Section 11.5.

(c) Timing of Transfers. Transfers pursuant to this Article 11 may only be made on the first day of a fiscal quarter of the Partnership, unless the General Partner otherwise agrees.

12. ADMISSION OF PARTNERS

12.1 Admission of Successor General Partner. A successor to all of the General Partner's General Partnership Interest pursuant to Section 8.7 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective upon such transfer, provided that, in the case of transactions other than those described in Section 8.7(c), Limited Partners representing a majority of the Percentage Interests (including Limited Partnership Interests held by the General Partner) vote to admit such person as successor General Partner, which votes shall be cast by such Limited Partners in their sole and absolute discretion. Provided such vote of the Limited Partners is obtained, any such transferee shall carry on the business of the Partnership without dissolution. In each case, the admission shall be subject to the successor General Partner executing and delivering to the Partnership an acceptance of all of the terms and conditions of this Agreement and such other documents or instruments as may be required to effect the admission.

12.2 Admission of Additional Limited Partners.

(a) General. A Person who makes a capital contribution to the Partnership in accordance with this Agreement or who exercises an option to receive Partnership Units shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (a) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Article 16 and (b) such other documents or instruments as may be required in the discretion of the General Partner in order to effect such Person's admission as an Additional Limited Partner.

(b) Consent of General Partner Required. Notwithstanding anything to the contrary in this Section 12.2, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole and absolute discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded on the books and records of the Partnership, following the consent of the General Partner to such admission.

12.3 Amendment of Agreement and Certificate. For the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Act to amend the records of the Partnership and, if necessary, to prepare as soon as practical an amendment of this Agreement (including an amendment of Exhibit A) and, if required by law, shall prepare and file an amendment to the Certificate and may for this purpose exercise the power of attorney granted pursuant to Article 16.

13. DISSOLUTION AND LIQUIDATION

13.1 Dissolution. The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. The Partnership shall dissolve, and its affairs shall be wound up, upon the first to occur of any of the following ("Events of Dissolution"):

(a) the expiration of the Partnership's term as provided in Section 2.4;

(b) an event of withdrawal of the General Partner, as defined in the Act, unless, within 90 days after the withdrawal, remaining Partners holding a majority of the Units agree in writing to continue the business of the Partnership and to the appointment, effective as of the date of withdrawal, of a substitute General Partner;

(c) from and after the date of this Agreement through December 31, 2056, an election to dissolve the Partnership made by the General Partner with the consent of the holders of a majority of the Percentage Interests (including Limited Partnership Interests held by the General Partner), and on or after January 1, 2056, an election to dissolve the Partnership made by the General Partner, in its sole and absolute discretion;

(d) entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Act;

(e) the sale of all or substantially all of the assets and properties of the Partnership;

(f) the merger or other combination of the Partnership with or into another entity; or

(g) the General Partner --

(1) makes an assignment for the benefit of creditors;

(2) files a voluntary petition in bankruptcy;

(3) is adjudged a bankrupt or insolvent, or has entered against

it an order for relief in any bankruptcy or insolvency proceeding;

(4) files a petition or answer seeking for itself any reorganization, arrangements, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation;

(5) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature; or

(6) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the General Partner or of all or any substantial part of its properties.

13.2 Winding Up.

(a) General. Upon the occurrence of an Event of Dissolution, the Partnership shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Partners. No Partner shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Partnership's business and affairs. The General Partner (or, in the event there is no remaining General Partner, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for overseeing the winding up and dissolution of the Partnership and shall take full account of the Partnership's liabilities and property and the Partnership property shall be liquidated as promptly as is consistent with obtaining the fair value of the property, and the proceeds shall be applied and distributed in the following order:

(1) First, to the payment and discharge of all of the Partnership's debts and liabilities to creditors other than the Partners;

(2) Second, to the payment and discharge of or provision for all of the Partnership's debts and liabilities to the General Partner;

(3) Third, to the payment and discharge of all of the Partnership's debt and liabilities to the other Partners, pro rata in accordance with amounts owed to each such Partner; and

(4) The balance, if any, to the General Partner and Limited Partners in accordance with their Capital Accounts, after giving effect to all contributions, distributions, and allocations for all periods.

The General Partner shall not receive any additional compensation for any services performed pursuant to this Article 13, other than reimbursement of its expenses.

(b) Where Immediate Sale of Partnership's Assets Impractical. Notwithstanding the provisions of Section 13.2(a) that require liquidation of the assets of the Partnership, but subject to the order of priorities set forth in that provision, if prior to or upon dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its sole and absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (including to those Partners as creditors) or, with the consent of the Partners holding a majority of the Partnership Units, distribute to the Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Section 13.2(a), undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Partners, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

13.3 Liquidation. Subject to Section 13.4, in the event the Partnership is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article 13 to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Regulations Section 1.704-1(b)(2)(ii)(b)(2) (including any timing requirements of those provisions). In the discretion of the General Partner, a pro rata portion of the distributions that would otherwise be made to the General Partner and Limited Partners pursuant to this Article 13 may be: (a) distributed to a liquidating trust established for the benefit of the General Partner and Limited Partners for the purpose of liquidating Partnership assets, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership (the assets of any such trust shall be distributed to the General Partner and Limited Partners from time to time, in the reasonable discretion of the General Partner, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been

distributed to the General Partner and Limited Partners pursuant to this Agreement); or (b) withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Partnership, provided that such withheld amounts shall be distributed to the General Partner and Limited Partners as soon as practicable.

13.4 Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article 13, in the event the Partnership is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) but no Event of Dissolution has occurred, the Partnership's property shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up.

13.5 Rights of Limited Partners. Except as specifically provided in this Agreement, each Limited Partner shall look solely to the assets of the Partnership for the return of its capital contribution and shall have no right or power to demand or receive property other than cash from the Partnership. Except as specifically provided in this Agreement, no Limited Partner shall have priority over any other Limited Partner as to the return of its capital contributions, distributions, or allocations.

13.6 Notice of Dissolution. If an Event of Dissolution or an event occurs that would, but for provisions of Section 13.1, result in a dissolution of the Partnership, the General Partner shall, within 30 days of the event, provide written notice of the event to each of the Partners and to all other parties with whom the Partnership regularly conducts business (as determined in the sole and absolute discretion of the General Partner) and shall publish notice of the event in a newspaper of general circulation in each place in which the Partnership regularly conducts business (as determined in the sole and absolute discretion of the General Partner).

13.7 Cancellation of Certificate of Limited Partnership. Upon the completion of the liquidation of the Partnership as provided in Section 13.2, the Partnership shall be terminated and the Certificate and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of California shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

13.8 Reasonable Time for Winding-Up. A reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of its assets pursuant to Section 13.2, in order to minimize any losses otherwise attendant upon such winding-up, and the provisions of this Agreement shall remain in effect between the Partners during the period of liquidation.

14. AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS

14.1 Amendments.

(a) General. Amendments to this Agreement may be proposed by the General Partner or by any Limited Partners holding 25 percent or more of the Partnership Units. Following such proposal, the General Partner shall submit any proposed amendment to the Limited Partners. The General Partner shall seek the written vote of the Partners on the proposed amendment or shall call a meeting to vote on the proposal and to transact any other business that it may deem appropriate. For purposes of obtaining a written vote, the General Partner may establish a Partnership Record Date and require a response within a reasonable specified time, but not less than 15 days, and failure to respond in such time period shall constitute a vote that is consistent with the General Partner's recommendation with respect to the proposal. Except as provided in Section 14.1(b) or 14.1(c), a proposed amendment shall be adopted and be effective as an amendment to this Agreement if it is approved by the General Partner and it receives the consent of a majority of the Partnership Units held by the Limited Partners (including Partnership Units held by the General Partner in its capacity as a Limited Partner).

(b) General Partner's Power to Amend. Notwithstanding Section 14.1(a), the General Partner shall have the power, without the consent of the Limited Partners, to amend this Agreement as may be required to facilitate or implement any of the following purposes:

(1) to add to the obligations of the General Partner or surrender any right or power granted to the General Partner or any Affiliate of the General Partner for the benefit of the Limited Partners;

(2) to reflect the admission, substitution, termination, or withdrawal of Partners in accordance with this Agreement;

(3) to set forth the rights, powers, duties, and preferences of the holders of any additional Partnership Interests issued pursuant to Section 4.2(b);

(4) to reflect a change that does not adversely affect the Limited Partners in any material respect, or to cure any ambiguity, correct

or supplement any provision in this Agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under this Agreement that will not be inconsistent with law or with the provisions of this Agreement;

(5) to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law; and

(6) to reflect such changes as are reasonably necessary for the General Partner to maintain its status as a REIT.

The General Partner will notify the Limited Partners when any material action under this Section 14.1(b) is taken in the next regular communication to the Limited Partners.

(c) Consent of Adversely Affected Partner Required. Notwithstanding Section 14.1(a), this Agreement shall not be amended without the consent of each Partner adversely affected if such amendment would:

(1) convert a Limited Partner's interest in the Partnership into a general partner's interest,

(2) modify the limited liability of a Limited Partner,

(3) alter rights of the Partner to receive distributions pursuant to Article 5, or the allocations specified in Article 6 (except as permitted pursuant to Section 4.2 and Section 14.1(b)(3)),

(4) alter or modify the Redemption Right or the Redemption Amount as set forth in Section 8.6 and related definitions,

(5) cause the termination of the Partnership prior to the time set forth in Sections 2.5 or 13.1,

(6) affect the operation of the Unit Adjustment Factor in a manner adverse to the Limited Partners,

(7) impose on the Limited Partners any obligation to make additional capital contributions to the Partnership, or

(8) amend this Section 14.1(c).

Further, no amendment may alter the restrictions of the General Partner's authority set forth in Section 7.2 without the consent specified in that Section.

14.2 Meetings of the Partners.

(a) General. Meetings of the Partners may be called by the General Partner and shall be called upon the receipt by the General Partner of a written request by Limited Partners holding 25 percent or more of the Partnership Units. The call shall state the nature of the business to be transacted. Notice of any such meeting shall be given to all Partners not less than seven days nor more than 30 days prior to the date of such meeting. Partners may vote in person or by proxy at such meeting. Whenever the vote or consent of Partners is permitted or required under this Agreement, such vote or consent may be given at a meeting of Partners or may be given in accordance with the procedure prescribed in Section 14.1. Except as otherwise expressly provided in this Agreement, the consent of holders of a majority of the Percentage Interests (including Limited Partnership Interests held by the General Partner) shall control.

(b) Action By Written Consent. Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action so taken is signed by a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement for such action to be taken at a meeting). Such consent may be in one instrument or in several instruments, and shall have the same force and effect as a vote of a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement for such action to be taken at a meeting). Such consent shall be filed with the General Partner. An action so taken shall be deemed to have been taken at a meeting held on the effective date so certified.

(c) Proxies. Each Limited Partner may authorize any Person or Persons to act for him by proxy on all matters in which a Limited Partner is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Limited Partner or its attorney-in-fact. No proxy shall be valid after the expiration of 11 months from the date of the proxy unless otherwise provided in the proxy. Every proxy shall, unless otherwise specifically provided in the proxy, be revocable at the pleasure of the Limited Partner executing it.

(d) Conduct of Meeting. Each meeting of Partners shall be conducted by the General Partner or such other Person as the General Partner may appoint

pursuant to such rules for the conduct of the meeting as the General Partner or such other Person deems appropriate, including establishment of a Partnership Record Date for such meeting.

15. GENERAL PROVISIONS

15.1 Addresses and Notice. All notices and demands under this Agreement shall be in writing, and may be either delivered personally (which shall include deliveries by courier) by telefax, telex or other wire transmission (with request for evidence of receipt in a manner appropriate with respect to communications of that type, provided that a confirmation copy is concurrently sent by a nationally recognized express courier for overnight delivery) or mailed, postage prepaid, by certified or registered mail, return receipt requested, directed to the parties at their respective addresses set forth on Exhibit A, as it may be amended from time to time, and, if to the Partnership, such notices and demands sent in the foregoing manner must be delivered at its principal place of business set forth above. Notices delivered personally or by telefax, telex or other wire transmission shall be effective on the first Business Day following the date of delivery or transmission. Notices that are mailed shall be deemed to have been received three (3) Business Days following the date so mailed. Any party may designate a different address to which notices and demands shall subsequently be directed by written notice given in the same manner and directed to the Partnership at its office.

15.2 Titles and Captions. All article or Section titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions of this Agreement. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

15.3 Pronouns and Plurals. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

15.4 Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

15.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

15.6 Waiver of Partition. The Partners agree that the Partnership properties are not and will not be suitable for partition. Accordingly, each of the Partners irrevocably waives any and all rights (if any) that it may have to maintain any action for partition of any of the Partnership properties.

15.7 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the matters contained in this Agreement; it supersedes any prior agreements or understandings among them and it may not be modified or amended in any manner other than pursuant to Article 14.

15.8 Securities Law Provisions. The Partnership Units have not been registered under the federal or state securities laws of any state and, therefore, may not be resold unless appropriate federal and state securities laws, as well as the provisions of Article 11, have been complied with.

15.9 Remedies Not Exclusive. Any remedies contained in this Agreement for breaches of obligations under this Agreement shall not be deemed to be exclusive and shall not impair the right of any party to exercise any other right or remedy, whether for damages, injunction or otherwise.

15.10 Time. Time is of the essence of this Agreement.

15.11 Creditors. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

15.12 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach of this Agreement shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

15.13 Execution Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on all the parties to this Agreement, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature to this Agreement.

15.14 Applicable Law. This Agreement shall be construed in accordance with and governed by the laws (other than the law governing the choice of law) of the State of California, without regard to the principles of conflicts of

law. In the event of a conflict between any provision of this Agreement and any nonmandatory provision of the Act, the provisions of this Agreement shall control and take precedence.

15.15 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not be affected.

15.16 No Third-Party Rights Created. The provisions of this Agreement are solely for the purpose of defining the interests of the Partners, inter se; and no other person, firm or entity (i.e., a party who is not a signatory to this Agreement or a permitted successor to such a signatory) shall have any right, power, title or interest by way of subrogation or otherwise, in and to the rights, powers, title and provisions of this Agreement.

16. POWER OF ATTORNEY

16.1 Power of Attorney.

(a) Scope. Each Limited Partner and each Assignee constitutes and appoints the General Partner, any Liquidator, and authorized officers and attorneys-in-fact of each, and each of those acting singly, in each case with full power of substitution, as its true and lawful agent and attorney-in-fact, with full power and authority in its name, place and stead to:

(1) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices

(i) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate and all amendments or restatements of the Agreement or the Certificate) that the General Partner or the Liquidator deems appropriate or necessary to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of California and in all other jurisdictions in which the Partnership may conduct business or own property;

(ii) all instruments that the General Partner deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms;

(iii) all conveyances and other instruments or documents that the General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement, including, without limitation, a certificate of cancellation;

(iv) all instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Articles 11, 12 or 13 or the capital contribution of any Partner; and

(v) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of Partnership Interests; and

(2) execute, swear to, acknowledge and file all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the sole and absolute discretion of the General Partner, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners under this Agreement or is consistent with the terms of this Agreement or appropriate or necessary, in the sole discretion of the General Partner, to effectuate the terms or intent of this Agreement.

Nothing contained in this Agreement shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article 14 or as may be otherwise expressly provided for in this Agreement.

(b) Irrevocability. The foregoing power of attorney is declared to be irrevocable and a power coupled with an interest, in recognition of the fact that each of the Partners will be relying upon the power of the General Partner to act as contemplated by this Agreement in any filing or other action by it on behalf of the Partnership, and it shall survive and not be affected by the subsequent Incapacity of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Units and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee agrees to be bound by any representation made by the General Partner, acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner, taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to

the General Partner or the Liquidator, within 15 days after receipt of the General Partner's request, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator, as the case may be, deems necessary to effectuate this Agreement and the purposes of the Partnership.

The parties have signed this Agreement as of the date specified in the introductory paragraph of this Agreement.

GENERAL PARTNER:

PS BUSINESS PARKS, INC.,
a California corporation

By: s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr., President and
Chief Executive Officer

LIMITED PARTNERS:

All of those Limited Partners set forth on
Exhibit A

By: PS BUSINESS PARKS, INC.,
a California corporation, their
attorney-in-fact

By: s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr., President
and Chief Executive Officer

Exhibit 10.2

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made and entered into as of March 17, 1998 by and between PS BUSINESS PARKS, INC., a California corporation (the "Company"), and ACQUIPORT TWO CORPORATION, a Delaware corporation (the "Holder").

RECITALS

A. The Holder is currently the owner of 5,289,765 shares of common stock in the Company (the "Holder's Shares"). Pursuant to certain documents executed in connection with Holder's acquisition of Holder's Shares, Holder obtained certain rights to acquire additional securities of the Company. Any such additional securities of the Company acquired by Holder pursuant to such rights are sometimes referred to herein as the "Additional Securities".

B. Company and Holder wish to provide in this Agreement for the rights, duties and obligations of the parties with respect to the registration of the Holder's Shares, any Additional Securities issued to the Holder and any securities of the Company that may be issued or distributed with respect to, in exchange or substitution for, or upon conversion of such Holder's Shares or Additional Securities, or on account of such Holder's Shares or Additional Securities as a result of any stock dividend, stock split, reverse split or other distribution, merger, combination, consolidation, recapitalization or reclassification or otherwise (collectively, "Registrable Shares").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Shelf Registration Statements.

Not later than the first anniversary of the date of this Agreement (or forty-five (45) days prior to the first anniversary of the date of this Agreement if the Company is then eligible to file Form S-3 or a successor form), the Company shall cause to be filed with the Securities and Exchange Commission (the "SEC") a registration statement, including a prospectus and related materials (the "Shelf Registration Statement"), in compliance with applicable SEC rules pursuant to which all Registrable Shares are registered under the Securities Act of 1933, as amended (the "Securities Act") for offerings to be made on a continuous, periodic or delayed basis, and, to the extent Holder is deemed to be an "affiliate" of the Company, pursuant to which resales of such Registrable Shares may be made. The Company shall use reasonable efforts to cause the Shelf Registration Statement to be declared effective by the SEC by the first anniversary of the date of this Agreement, and shall use reasonable efforts to keep the Shelf Registration Statement effective, including, without limitation, the preparation and filing of any amendments and supplements necessary for that purpose.

2. Back-up Registration Rights.

If, despite the reasonable efforts of the Company, the Shelf Registration Statement, any "Additional Registration Statement" (as hereinafter defined), or any "New Registration Statement" (as hereinafter defined) ceases to be effective for any reason, then the Company will cause to be filed with the SEC as soon as reasonably practicable thereafter a new registration statement, prospectus and related materials (a "New Registration Statement") that complies with applicable SEC rules providing for the registration and, to the extent Holder is deemed to be an "affiliate" of the Company, resale, by the Holder of the Registrable Shares or Additional Securities, as applicable, on a continuous, periodic or delayed basis. The Company shall use reasonable efforts to cause each New Registration Statement to be declared effective by the SEC as soon as practicable, and shall use reasonable efforts to keep each New Registration Statement effective, including, without limitation, the preparation and filing of any amendments and supplements necessary for that purpose.

3. Additional Registration Rights.

If Additional Securities are issued to the Holder, then the Company will cause to be filed with the SEC, as soon as practicable after each issuance of such Additional Securities, a registration statement, prospectus and related materials (an "Additional Registration Statement") that complies with applicable SEC rules pursuant to which the Additional Securities will be registered under the Securities Act for offerings to be made on a continuous, periodic or delayed basis and, to the extent Holder is deemed to be an affiliate of the Company, resales of such Additional Securities may be made. The Company shall use

reasonable efforts to cause each such Additional Registration Statement to be declared effective by the SEC as soon as practicable, and shall use reasonable efforts to keep each Additional Registration Statement effective, including, without limitation, the preparation and filing of any amendments and supplements necessary for that purpose. The foregoing to the contrary notwithstanding, the Company shall not be required to file any Additional Registration Statement before the first anniversary of the date of this Agreement (or forty-five (45) days prior to the first anniversary of the date of this Agreement if the Company is then eligible to file Form S-3 or a successor form), or cause any Additional Registration Statement to be declared effective prior to the first anniversary of the date of this Agreement.

4. Certain Registration Procedures.

The following additional registration procedures shall apply with respect to any Registration Statement required to be filed pursuant to Sections 1, 2 or 3 above. (As used in this Agreement, "Registration Statement" and "Prospectus" refer to the Shelf Registration Statement and related prospectus, any New Registration Statement and related prospectus [including any preliminary prospectus] and any Additional Registration Statement and related prospectus, including in each case any documents incorporated therein by reference.)

4.1 Suspension of Offering.

(a) The Company shall be entitled, from time to time, to require the Holder not to sell under a Registration Statement if the negotiation or consummation of a transaction by the Company or its subsidiaries is pending or circumstances have arisen, which negotiation, consummation or circumstances would require additional disclosure by the Company in such Registration Statement of material information which the Company has a bona fide business purpose for keeping confidential and the nondisclosure of which in the Registration Statement might cause the Registration Statement to fail to comply with applicable disclosure requirements; provided, however, that the Company may not prohibit sales for such reason more than twice in any twelve (12) month period, for more than thirty (30) days in one instance, or more than sixty (60) days in the other instance, at any one time.

(b) Subject to the limitations as to frequency and duration set forth in Section 4.1(a), upon receipt of any notice from the Company of the happening of any event which is of a type specified in Section 4.1(a), the Holder agrees that it will immediately discontinue offers and sales of securities under the Registration Statement until the Holder receives copies of a supplemented or amended Registration Statement which addresses the disclosure issues referred to above, after which the Holder shall be free to resume offering and selling activities. The Company agrees to promptly prepare any such supplemented or amended Registration Statement and to use reasonable efforts to cause such supplemented or amended Registration Statement to be declared effective by the SEC as soon as practicable. If so directed by the Company, the Holder will deliver to the Company all copies of any Prospectus in its possession at the time of receipt of such notice.

4.2 Obligations of the Company with Respect to Registration Statements. In connection with a Registration Statement and the securities to be sold thereunder (the "Covered Securities"), the Company agrees to:

(a) furnish to the Holder such number of copies of the Registration Statement, each amendment, post-effective amendment and supplement thereto, the Prospectus included in the Registration Statement (including each preliminary Prospectus) in compliance with the requirements of the Securities Act, and such other documents as the Holder may reasonably request in order to facilitate the disposition of the Covered Securities owned by the Holder; the Company consents to the use of the Prospectus for the Registration Statement, including each preliminary Prospectus, by the Holder in connection with the offering and sale of Covered Securities;

(b) use reasonable efforts to register or qualify such Covered Securities under such other securities or blue sky laws of such jurisdictions as the Holder reasonably requests, and do any and all other acts and things which may be reasonably necessary or advisable to enable the Holder to consummate the disposition in such jurisdictions of the Covered Securities, provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (ii) subject itself to taxation in any jurisdiction where it would not otherwise be subject to taxation but for this subparagraph, or (iii) consent to general service of process in any such jurisdiction where it would not otherwise be subject to service of process but for this subparagraph (except as may be required by the Securities Act);

(c) cause all such Covered Securities to be listed and qualified for trading on each securities exchange on which similar securities issued by the Company are then listed and qualified for trading;

(d) provide a transfer agent and registrar for all such Covered Securities not later than the effective date of the Registration Statement applicable thereto, and thereafter maintain such a transfer agent and registrar;

and otherwise cooperate with the sellers to facilitate the timely preparation and delivery of certificates representing Covered Securities to be sold and not bearing any Securities Act legends;

(e) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months beginning with the first day of the Company's first full calendar quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(f) promptly notify the holder in writing of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of a Registration Statement, or any part thereof, or of any order suspending or preventing the use of any related Prospectus or the initiation of any proceedings for that purpose, or if the Company receives any notification with respect to the suspension of the qualification of any Registrable Securities for offer or sale in any jurisdiction or the initiation of any proceedings for that purpose;

(g) in the event of the issuance of any stop order suspending the effectiveness of any Registration Statement, or any part thereof, or of any order suspending or preventing the use of any related Prospectus or suspending the qualification of any Registrable Securities for sale in any jurisdiction, the Company will use its best efforts to promptly obtain the withdrawal of such order;

(h) use reasonable efforts to cause the Covered Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable the Holder to consummate the disposition of such Covered Securities;

(i) promptly notify the Holder, at any time when a Prospectus relating to Covered Securities is required to be delivered under the Securities Act, of the happening of any event as a result of which the Prospectus included in the applicable Registration Statement (as then in effect) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein (in the case of the Prospectus and any preliminary Prospectus, in light of the circumstances under which they were made) not misleading when such Prospectus was delivered; the Company will, as soon as practicable, prepare and furnish to the Holder a supplement or amendment to such Prospectus so that, as thereafter delivered to the purchasers of such Covered Securities, such Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(j) prepare and file with the SEC such amendments and supplements to each Registration Statement and the Prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of securities covered by such Registration Statement; and

(k) to the extent permitted by the professional standards governing the accounting profession at the time, obtain cold comfort letters and updates thereof from the independent public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data are, or are requested to be, included in the Registration Statement) addressed to the Holder in customary form and covering such matters of the type customarily covered by cold comfort letters.

4.3 Obligations of Holder with Respect to Registration Statements. The Holder agrees to provide promptly following any written request therefor, any information reasonably requested by the Company in connection with the preparation of and for inclusion in the Registration Statement (including, without limitation, if applicable, information regarding the proposed distribution by the Holder of the Covered Securities).

4.4 Review of Registration Statements. No Registration Statement, Prospectus or related materials, and no supplement or amendment to any Registration Statement, Prospectus or related materials shall be filed unless and until all of the following conditions have been satisfied; provided, however, that, by implementing the following conditions, the Holder shall not be deemed to have made any representation or warranty of any kind or nature whatsoever with respect to any matter set forth, contained or addressed in such Registration Statement, Prospectus or related materials, including but not limited to the accuracy, adequacy or completeness thereof:

(a) A complete and accurate copy of each Registration Statement, Prospectus and all related material, and of each proposed supplement or amendment to any Registration Statement, Prospectus or related materials (all individually and collectively referred to herein as "Filing Material") shall be provided to each person or entity designated herein to receive the original or

copies of notices directed to Holder (each a "Notice Party") sufficiently in advance of that proposed Filing Material being filed with the SEC or any other federal or state agency having jurisdiction over securities offerings (a "Filing") so as to allow the Notice Parties a reasonable opportunity to review and comment on such proposed Filing Material prior to Filing.

(b) Promptly upon receipt of any comments or requested revisions to any Filing Material from the SEC or any other federal or state agency (collectively "Agency Comments"), the Company shall provide a complete and accurate copy of the Agency Comments to each Notice Party.

(c) Promptly upon making any addition, deletion or revision to any Filing Material not previously provided to all Notice Parties, including but not limited to any addition, deletion or revision in response to Agency Comments, the Company shall provide each Notice Party with a complete and accurate copy of the revised Filing Material, with the changes highlighted therein, sufficiently in advance of Filing any such addition, deletion or revision so as to allow the Notice Parties a reasonable opportunity to review and comment thereon prior to Filing.

(d) Prior to each Filing the Company shall certify to Holder in writing that the Company, both through the devotion of the necessary time and attention of capable Company personnel and Company resources, and through the engagement of and collaboration with qualified legal, accounting, underwriting, appraisal, environmental and other experts, exercised good faith and due care in the preparation of the Filing Materials, both as to form and content.

5. Underwritten Offerings.

5.1 Demand by Holder. On or after one (1) year after the date of this Agreement, the Company shall, at the Holder's written request, assist in an underwritten offering of Registrable Shares by the Holder; provided, however, that the Company shall not be obligated to comply with any such request with respect to an offering of Registrable Shares with a gross retail value of less than $50,000,000 unless, pursuant to Section 5.5(a), Holder was prevented from including in an underwritten offering the entire number of Registrable Shares initially requested by Holder to be included in such offering, in which case the limitation set forth in this proviso shall be decreased to the lesser of $50,000,000 or the gross retail value of the Registrable Shares Holder was prevented from including in such offering. In connection with any such underwritten offering, the Company agrees to:

(a) enter into such customary agreements (including underwriting agreements in customary form) and take all such actions as the Holder or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of Covered Securities, including without limitation:

(i) making such representation and warranties to the underwriters in form, substance and scope reasonably satisfactory to the managing underwriter, as are customarily made by issuers to underwriters in primary underwritten offerings;

(ii) obtaining opinions and updates thereof of counsel which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriter, addressed to the underwriters covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by the managing underwriter;

(iii) causing the underwriting agreement to set forth in full the indemnification provisions and procedures of Section 7 (or such other substantially similar provisions and procedures as the managing underwriter shall reasonably request) with respect to all parties to be indemnified pursuant to said Section; and

(iv) delivering such documents and certificates as may be reasonably requested by the Holder to evidence compliance with the provisions of this Section 5.1 and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company;

(b) upon receipt by the Company of reasonable confidentiality agreements, make available for inspection by any underwriter participating in any disposition pursuant to a Registration Statement and any attorney, accountant or other agent retained by any such underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to be available on a reasonable basis and cooperate with such parties' "due diligence" and to supply all information reasonably requested by any such underwriter, attorney, accountant or agent in connection with such Registration Statement;

(c) make available appropriate management personnel of the Company for participation in the preparation and drafting of Registration Statements, for "due diligence" meetings, for "road shows", and for other meetings and conference calls with investment bankers and their prospective

investors;

(d) provide written materials customarily made available to underwriters in underwritten offerings; and

(e) to the extent permitted by the professional standards governing the accounting profession at the time, obtain cold comfort letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data are, or are requested to be, included in any Registration Statement), addressed to the underwriter(s) and Holder, such letters to be in customary form and covering matters of the type customarily covered in cold comfort letters in connection with underwritten offerings.

5.2 Selection of Underwriters by Holder. In the case of an underwritten offering requested by Holder pursuant to Section 5.1, the Holder shall have the right to approve the investment banker(s), and/or manager(s), selected by the Company to administer the offering, including the brokerage and/or selling commissions to be charged, which approval shall not be unreasonably withheld or delayed. Attached hereto as Exhibit A is a list of investment bankers and managers which shall be deemed approved by the Holder.

5.3 Limitations on Demands. The Company shall not be obligated to assist with an underwritten offering requested by Holder pursuant to Section 5.1 more than once in any twelve (12) month period, or more than twice in total; provided, however, that any underwritten offering in which Holder is prevented by Section 5.5(a) from including in such offering the entire number of Registrable Shares initially requested by Holder to be included in such offering shall not be counted for purposes of this Section 5.3.

5.4 Holder Participation in Company Offering. If the Company proposes to execute or participate in an underwritten offering of any of the Company's stock or other securities, whether upon the Company's own initiative or at the request or demand of any other person, the Company shall promptly give Holder written notice of such proposed offering. Upon the written request of Holder delivered to the Company within twenty (20) days from the date of the Holder's receipt of the Company's notice, the Company shall, subject to the provisions of Section 5.5, cause to be included in such underwritten offering all or any portion of Holder's Registrable Shares that are identified in Holder's written request.

5.5 Underwriting Requirements.

(a) In connection with any underwritten offering pursuant to Section 5.1, the Company shall not be entitled to include in such underwriting any securities not held by Holder; except that the Company shall be entitled to include (i) some or all of the securities held by one or more of ABKB/LaSalle Securities Limited Partnership, Cohen & Steers Capital Management, Inc., Morgan Stanley Asset Management, Fidelity Management and Research, Stanford University, State of Michigan Retirement Systems (collectively, the "Equity Investors") pursuant to that certain Term Sheet with AOPP dated December 3, 1997 attached hereto (the "Term Sheet") and (ii) some or all of the securities held by the parties listed on Exhibit B as a result of their contribution of assets to AOPP (the "Sellers"), if such Equity Investors and/or Sellers accept the terms of the underwriting agreement with the underwriters selected pursuant to Section 5.2, and then only to the extent such securities are securities of the Company or securities convertible into or exchangeable or exercisable for securities of the Company and such securities were issued pursuant to the Term Sheet. If the total amount of securities, including the Holder's Registrable Shares and such securities of the Equity Investors and/or Sellers, to be included in such offering exceeds the amount of securities that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be entitled to include in the offering only that number of securities of Holder, the Equity Investors and/or Sellers which the underwriters determine in their sole discretion will not jeopardize the success of the offering, with the securities so included to be apportioned pro rata among the Holder, the Equity Investors and the Sellers in proportion to the total amount of securities initially requested by each of them to be included in such offering.

(b) In connection with any underwritten offering pursuant to Section 5.4, the Company shall not be required to include any of the Holders' Registrable Shares in such underwriting unless Holder accepts the terms of the underwriting agreement between the Company and the underwriters selected by the Company. If the total amount of securities, including the Holder's Registrable Shares, to be included in such offering exceeds the amount of securities that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including the Holder's Registrable Shares, which the underwriters determine in their sole discretion will not jeopardize the success of the offering, with the securities so included to be apportioned pro rata among the Company, the Holder and all other selling stockholders in proportion to the total amount of securities initially requested by each of them to be included in such offering.

6. Term of Agreement.

(a) The Company shall be relieved of its duties under Sections 1, 2, and 3 of this Agreement upon the earlier to occur of (a) the date on which the Holder no longer holds any Registrable Shares or any rights to acquire Registrable Shares, pursuant to any preemptive rights, rights of first refusal, rights of first offer or otherwise; and (b) the date on which all of the following conditions are satisfied: (i) Holder's "fully diluted" (as hereinafter defined) ownership interest in the Company and all other entities in which the Company owns any direct or indirect interest is less than five percent (5%); (ii) Holder no longer has the right under that certain Agreement Among Shareholders and Company to require PSA to vote for the director designated by Acquiport Two Corporation; and (iii) the Company delivers to Holder its certificate, and counsel to the Company reasonably acceptable to Holder issues to Holder an unqualified, unconditional legal opinion, that (A) Holder is not and has not been an "affiliate" (as defined in Rule 144 under the Securities Act) of the Company for the preceding three (3) months; (B) at least two (2) years has elapsed since the date the Holder's Registrable Securities were acquired by Holder from the Company (applying the rules of paragraph (d) of said Rule 144); and (C) the Holder's Registrable Shares may then be freely sold, resold, traded, offered or distributed, whether under Rule 144(k) under the Securities Act or otherwise, to the same extent as would be permitted had the Registration Statement and Prospectus remained on file and in full force and effect. As used herein, "fully diluted" shall mean, with respect to Holder's ownership interest in the Company, and all other entities in which the Company owns any direct or indirect interest, a fraction, expressed as a percentage if so indicated, the numerator of which is the number of shares of common stock in the Company which Holder would hold if all securities convertible into or exercisable or exchangeable for common stock in the Company held by Holder were converted into or exercised or exchanged for common stock in the Company, and the denominator of which is the total number of shares of common stock in the Company which would be outstanding if all securities convertible into or exercisable or exchangeable for common stock in the Company were converted into or exercised or exchanged for common stock in the Company.

(b) The Company shall be relieved of its duties under Section 5.4 of this Agreement when the gross retail value of Registrable Shares held by Holder is less than Twenty Five Million Dollars ($25,000,000).

7. Indemnification; Contribution.

7.1 Indemnification by the Company. The Company agrees to indemnify, defend and hold harmless the Holder (and each nominee or assignee of the Holder permitted pursuant to Section 8.5) and each person, if any, who controls the Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as follows:

(a) against any and all loss, liability, claim, damage and expense whatsoever (including fees and disbursements of counsel), arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment thereto) pursuant to which securities held by the Holder were registered under the Securities Act, including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (or any amendment or supplement thereto), including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (collectively a "Material Misstatement"):

(b) against any and all loss, liability, claim, damage and expense whatsoever (including fees and disbursements of counsel) to the extent of the aggregate amount paid in settlement of any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever arising out of or based upon any Material Misstatements or alleged Material Misstatement, if such settlement is effected with the written consent of the Company; and

(c) against any and all loss, liability, claim, damage and expense whatsoever (including fees and disbursements of counsel), incurred in investigating, preparing or defending against any litigation, investigation or proceeding by any governmental agency or body, commenced or threatened, in each case whether or not a party, or of any claim whatsoever arising out of or based upon any Material Misstatement or alleged Material Misstatement, to the extent that any such loss, liability, claim, damage or expense is not paid under subparagraph (a) or (b) above;

provided, however, that the indemnity provided pursuant to this Section 7.1 shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information

furnished to the Company by the Holder expressly for use in the Registration Statement (or any amendment thereto) or the Prospectus (or any amendment or supplement thereto).

7.2 Indemnification by Holder. Holder agrees to indemnify, defend and hold harmless the Company, and each of its directors and officers, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, to the same extent as the indemnity contained in Section 7.1 hereof (except that any settlement described in Section 7.1(b) shall be effected with the written consent of the Holder), but only insofar as such loss, liability, claim, damage or expense arises out of or is based upon any untrue statement or omission, or alleged untrue statement or omission, of a material fact made in reliance upon and in conformity with written information furnished to the Company by the Holder expressly for use in any Registration Statement (or any amendment or supplement thereto) or the Prospectus (or any amendment or supplement thereto) pursuant to which securities held by the Holder (or permitted assignees) were registered under the Securities Act. In no event shall the liability of Holder hereunder be greater in amount than the gross dollar amount of the proceeds received by Holder upon the sale of the Registrable Shares giving rise to such indemnification obligation.

7.3 Conduct of Indemnification Proceedings. The indemnified party under any indemnity contained in this Agreement shall give reasonably prompt notice to the indemnifying party of any action or proceeding commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify the indemnifying party (a) shall not relieve it from any liability which it may have under the indemnity agreements provided in this Agreement, unless and to the extent it did not otherwise learn of such action and the lack of notice by the indemnified party results in the forfeiture by the indemnifying party of substantial rights and defenses, and (b) shall not, in any event, relieve the indemnifying party from any obligations to the indemnified party other than the indemnification obligations provided under this Agreement. If the indemnifying party so elects within a reasonable time after receipt of such notice, the indemnifying party may assume the defense of such action or proceeding with counsel chosen by the indemnifying party and approved by the indemnified party, which approval shall not be unreasonably withheld; provided, however, that the indemnifying party will not settle any such action or proceeding without the written consent of the indemnified party unless, as a condition to such settlement, the indemnifying party secures the unconditional release of the indemnified party; and provided further, that if the defendants in any such action or proceeding include both the indemnified party and the indemnifying party and the indemnified party reasonably determines, upon advice of counsel, that a conflict of interest exists or that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, then the indemnified party shall be entitled to one separate counsel, the reasonable fees and expenses of which shall be paid by the indemnifying party. If the indemnifying party does not assume the defense of such action or proceeding, after having received the notice referred to in the first sentence of this Section 7.3, the indemnifying party will pay the reasonable fees and expenses of counsel (which shall be limited to a single law firm) for the indemnified party. In such event, however, the indemnifying party will not be liable for any settlement effected without the written consent of the indemnifying party. If an indemnifying party is entitled to assume, and assumes, the defense of such action or proceeding in accordance with this Section, the indemnifying party shall not be liable for any fees and expenses of counsel for the indemnified party incurred thereafter in connection with such action or proceeding except as set forth in the second proviso in the second sentence of this Section 7.3.

7.4 Contribution.

(a) In order to provide for just and equitable contribution in circumstances in which the indemnity agreements provided for in this Agreement are for any reason held to be unenforceable by the indemnified party in accordance with its terms, the Company and the Holder shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by such indemnity agreement incurred by the Company and the Holder, (a) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Holder on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, or (b) if the allocation provided by clause (a) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative fault of but also the relative benefits to the Company on the one hand and the Holder on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits to the indemnifying party and indemnified party shall be determined by reference to, among other things, the total proceeds received by the indemnifying party and indemnified party in connection with the offering to which such losses, claims, damages, liabilities or expenses relate. The relative fault of the indemnifying party and indemnified party shall be determined by reference to, among other things, whether the action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, the indemnifying party or the indemnified party, and the parties'

relative intent, knowledge, access to information and opportunity to correct or prevent such action.

(b) The parties hereto agree that it would not be just or equitable if contribution pursuant to this Section 7.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in subparagraph (a) above. Notwithstanding the provisions of this Section 7.4, the Holder shall not be required to contribute any amount in excess of the amount of the total proceeds to the Holder from sales of Covered Securities of the Holder under the Registration Statement.

(c) Notwithstanding subparagraphs (a) and (b) above, no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7.4, each person, if any, who controls the Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Holder, and each director of the Company, each officer of the Company who signed a Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company.

8. Holdback Agreements.

8.1 Holder Holdback Agreement. Holder shall not effect any sale or distribution of Registrable Shares or any securities convertible into or exchangeable or exercisable for Registrable Shares, including a sale pursuant to Rule 144 (or any similar provision then in force) under the Securities Act, if and to the extent required by the managing underwriter of an underwritten offering being undertaken by the Company; provided, however, that such restriction on public sales or distributions shall not apply (a) for a period exceeding the fourteen (14) days prior to, and the one hundred eighty (180) day period beginning on, the effective date of the registration statement filed in connection with such underwritten offering; (b) to any sale as a part of or in conjunction with such underwritten offering; or (c) unless all officers, directors and other persons with registration rights with respect to securities of the Company enter into or are restricted by similar holdback agreements.

8.2 Company Holdback Agreement. Company shall not effect any sale or distribution of (other than in connection with Company employee, Company consultant or Company director stock options), or assist in an underwritten offering by any other person of, any securities of the Company or securities convertible into or exchangeable or exercisable for securities of the Company, if and to the extent required by the managing underwriter of an underwritten offering being undertaken pursuant to Section 5.1, above; provided, however, that such restriction on public sales or distributions shall not apply (a) for a period exceeding the fourteen (14) days prior to, and the one hundred eighty (180) day period beginning on, the effective date of the registration statement filed in connection with such underwritten offering in; or (b) to any sale as a part of or in conjunction with an underwritten offering in compliance with Section 5.5(a). The foregoing restrictions shall not apply to issuances by the Company of its securities upon the exercise of employee, consultant or director stock options to the extent permitted by the managing underwriter.

9. Miscellaneous.

9.1 Expenses. The Company shall pay all expenses incurred in connection with any Registration Statement, Prospectus and related materials with respect to all registrations made pursuant to Sections 1, 2 and 3, and any underwritten offering requested by Holder pursuant to Section 5.1 or undertaken by the Company pursuant to Section 5.4, and the performance by it of any and all of its other obligations under this Agreement, including (a) all stock exchange, SEC and state securities registration, listing and filing fees, (b) all expenses incurred in connection with the preparation, printing and distributing of Registration Statements and Prospectuses, (c) accounting fees, costs of appraisals, and the costs of environmental and other reports, (d) fees and disbursements of counsel for the Company, and (e) except as set forth in the following sentence, underwriting discounts, brokerage and selling commissions and transfer taxes. The Holder shall be responsible for the payment of any underwriting discounts, brokerage and selling commissions and transfer taxes relating to the sale or disposition of securities held by the Holder, and the fees and disbursements of the Holder's counsel. Notwithstanding the foregoing, in the event any attempt to file a registration statement with the SEC pursuant to Sections 1, 2 or 3 fails solely due to the fault or error of Holder, Holder will reimburse the Company for the Company's reasonable costs and expenses incurred in attempting to accomplish such registration.

9.2 Authorization; No Conflicts. Each party to this Agreement represents and warrants to the other parties to this Agreement that the execution and deliver of this Agreement by such party and the performance by such party of its covenants and agreements under this Agreement have been, or at the time of such performance will have been, duly authorized by all necessary corporate action on the part of such party, and all required consents to the

transactions contemplated hereby have been obtained by such party, or at the time of such performance will have been received by such party. The execution, delivery and performance by such party of this Agreement, the fulfillment of and compliance with the terms and provisions hereof, and the consummation by such party of the transactions contemplated hereby, do not and will not: (a) conflict with, or violate any provisions of, the Articles of Incorporation, Bylaws or other governing documents of such party; (b) conflict with, or violate any provision of, any statute, law, ordinance, regulation, rule, order, writ or injunction having applicability to such party or any of its assets; (c) result in a breach or acceleration of the maturity of any loan or credit agreement to which such party is a party or by which any of its assets may be affected; or (d) conflict with, result in any breach of, or constitute a default under any agreement to which such party is a party or by which it or any of its assets are bound.

9.3 Integration; Amendment. This Agreement, together with its exhibits and the other agreements referred to herein, constitutes the entire agreement among the parties hereto with respect to the matters relating to registration rights set forth herein and supersedes and renders of no force and effect all prior oral or written agreements, commitments and understandings among the parties with respect to the matters relating to registration rights set forth herein. Except as otherwise expressly provided in this Agreement, no amendment, modification or discharge of this Agreement shall be valid or binding unless set forth in writing and duly executed by each of the parties hereto.

9.4 Waivers. No waiver by a party hereto shall be effective unless made in a written instrument duly executed by the party against whom such waiver is sought to be enforced, and only to the extent set forth in such instrument. Neither the waiver by any of the parties hereto of a breach or a default under any of the provisions of this Agreement, nor the failure of any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder shall thereafter be construed as a waiver of any subsequent breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

9.5 Assignment; Successors and Assigns. The Holder may elect to have a nominee take title to any or all of the Registrable Shares, in which went the benefits of this Agreement shall run directly to such nominee. The Holder may assign its rights and obligations under this Agreement to the New York State Common Retirement Fund ("CRF") or to any entity wholly owned, directly or indirectly, by CRF and to which all of the Registrable Shares have been transferred. This Agreement shall be binding upon and inure to the benefit of the Company and its successors by merger. Except as provided in this Section, no party hereto shall assign its rights and/or obligations under this Agreement, in whole or in part, whether by operation of law or otherwise.

9.6 Burden and Benefit. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, personal and legal representatives, successors and, subject to Section 8.5 above, assigns.

9.7 Notices. Any notice, consent or approval required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given (i) upon hand delivery to the recipient; (ii) by facsimile transmission, upon receipt by the sender of confirmation of such transmission, (iii) one (1) business day after being deposited with Federal Express or another reliable overnight courier service for next day delivery; or (iv) if deposited in the United States mail, registered or certified mail, postage prepaid, return receipt required, on the date of receipt or refusal to accept delivery; and addressed or telecopied as follows:

If to Company:

PS Business Parks, Inc.
701 Western Avenue, Suite 200
Glendale, California 91201
Attn: Mr. Ronald L. Havner, Jr.
Fax No.: (818) 244-9267
Telephone No.: (818) 244-8080

And a copy to:

Hale and Dorr LLP
1455 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Attn: Steven S. Snider, Esq.
Fax No.: (202) 942-8484
Telephone No.: (202) 942-8400

If to Holder:

Office of the State Comptroller
633 Third Avenue, 31st Floor
New York, New York 10017-6754
Attn: Chief Real Estate Investment

Officer - Equity Program
Fax No.: (212) 681-4485
Telephone No.: (212) 681-4489

And a copy to:

Office of the State Comptroller
633 Third Avenue, 31st Floor
New York, New York 10017-6754
Attn: Marjorie Tsang, Esq.
Fax No.: (212) 681-4485
Telephone No.: (212) 681-4471

And a copy to:

Cox, Castle & Nicholson LLP
2049 Century Park East, Suite 2800
Los Angeles, California 90067
Attn: Amy H. Wells, Esq.
Fax No.: (310) 277-7889
Telephone No.: (310) 284-2233

And a copy to:

Heitman Capital Management Corporation
180 North LaSalle Street
Suite 3400
Chicago, Illinois 60601-2886
Attn: David B. Perisho
Fax No.: (312) 541-6798
Telephone No.: (312) 541-6748

or such other address or telephone number as any party may from time to time specify in writing to the others; provided, however, that the foregoing addresses and numbers shall remain in effect unless and until notice of and change is deemed to have been given in the manner required by this Section.

9.8 Specific Performance. The parties hereto acknowledge that the obligations undertaken by them hereunder are unique and that there would be no adequate remedy at law if any party fails to perform any of its obligations hereunder, and accordingly agree that each party, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to (a) compel specific performance of the obligations, covenants and agreements of any other party under this Agreement in accordance with the terms and conditions of this Agreement; and (b) obtain preliminary injunctive relief to secure specific performance and to prevent a breach or contemplated breach of this Agreement. Each party waives the requirement of the posting of any bond or security in connection with any proceedings or any injunction issued in connection with this Section.

9.9 Governing Law. Notwithstanding that California law, with respect to choice of law, or the Constitution, laws or treaties of the United States of America, may dictate that this Agreement should be governed by or construed in accordance with the laws of another jurisdiction, this Agreement, and all documents and instruments executed and delivered in connection herewith shall be governed by and construed in accordance with the laws of the State of California.

9.10 Enforcement. If any party hereto institutes any action or proceeding to interpret or enforce any provision of this Agreement or for an alleged breach of any provision of this Agreement, the prevailing party shall be entitled to recover its actual attorneys' fees and all fees, costs and expenses incurred in connection with such action or proceeding. Such attorneys' fees, fees, costs and expenses shall include post judgment attorneys' fees, fees, costs and expenses incurred on appeal or in collection of any judgment. This provision is separate and several and shall survive the merger of this provision into any judgment on this Agreement. No person or entity other than the parties hereto is or shall be entitled to bring any action to enforce any provision of this Agreement against any of the parties hereto, and the covenants and agreements set forth in this Agreement shall be solely for the benefit of, and shall be enforceable only by, the parties hereto or their respective successors and assigns as permitted hereunder.

9.11 Jurisdiction and Venue. Any action initiated by any party under this Agreement shall be brought and prosecuted in the United States District Court for the Central District of California which the parties acknowledge and agree is a convenient forum in which to litigate such action, and the parties waive any right to commence or transfer such action in or to any other court. Should said District Court find that it has no jurisdiction over such action, then such action shall be brought and prosecuted in the Superior Court of the County of Los Angeles, State of California. Each party hereto expressly consents and submits to personal jurisdiction in the federal or state courts, as the case may be, in the State of California, County of Los Angeles and to permanent and exclusive venue in Los Angeles County, State of California. In addition, in any action under this Agreement, each party hereto expressly consents to service of

process by any manner set forth in this Agreement for the giving of notice.

9.12 Headings. Section and subsection headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

9.13 Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the person or entity may. require.

9.14 Execution in Counterparts. To facilitate execution, this Agreement may be executed in as many counterparts as may be required. It shall not be necessary that the signature of or on behalf of each party appears on each counterpart, but it shall be sufficient that the signature of or on behalf of each party appears on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in any proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of or on behalf of all of the parties.

9.15 Severability. If fulfillment of any provision of this Agreement, at the time such fulfillment shall be due, shall transcend the limit of validity prescribed by law, then the obligation to be fulfilled shall be reduced to the limit of such validity; and if any clause or provision contained in this Agreement operates or would operate to invalidate this Agreement, in whole or in part, then such clause or provision only shall be held ineffective, as though not herein contained, and the remainder of this Agreement shall remain operative and in full force and effect.

9.16 Exhibits. All exhibits attached hereto are incorporated herein as though fully set forth herein.

9.17 Time of the Essence. Time is of the essence in the performance of this Agreement.

9.18 Execution of Documents by Holder. Holder has informed Company, and Company understands and agrees, that for administrative reasons Holder requires up to five (5) business days to execute any document and an additional one (1) business day to deliver such document. Therefore, all documents to be executed by Holder shall be agreed to and prepared in final execution form and received by Holder for execution not less than six (6) business days prior to the scheduled delivery date.

9.19 Further Assurances. Each party agrees to cooperate fully with the other parties and to prepare, execute, and deliver such further instruments of conveyance, contribution, assignment, or transfer and shall take or cause to be taken such other or further action as either party shall reasonably request at any time or from time to time in order to consummate the terms and provisions and to carry into effect the intents and purposes of this Agreement.

9.20 Legal Representation and Construction. Each party hereto has been represented by legal counsel in connection with the negotiation and drafting of this Agreement. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement, and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed on its behalf as of the date first hereinabove set forth.

COMPANY:

PS BUSINESS PARKS, INC., a
California corporation

By: /s/ RONALD L. HAVNER, JR.

Ronald L. Havner, Jr.
President, CEO
(Print Name and Title)

HOLDER:

ACQUIPORT TWO CORPORATION, a
Delaware corporation

By: /S/ HOWARD J. EDELMAN

Vice President
(Print Name and Title)

[Exhibit A to this Agreement has been omitted and will be furnished to the Securities and Exchange Commission upon request]

Exhibit 10.3

COX, CASTLE & NICHOLSON LLP
2049 CENTURY PARK EAST
TWENTY-EIGHTH FLOOR
LOS ANGELES, CALIFORNIA 90067-3284
TELEPHONE (310) 277-4222
FACSIMILE (310) 277-7889

May 20, 1998

VIA FACSIMILE

David Goldberg, Esq.
American Office Park Properties, Inc.
701 Western Avenue, Suite 200
Glendale, California 91201

Re: PS Business Parks, Inc./Acquiport Two Corporation

Dear Dave:

This letter is in reference to that certain Registration Rights Agreement made and entered into as of March 17, 1998 by and between PS Business Parks, Inc., a California corporation (the "Company") and Acquiport Two Corporation, a Delaware corporation (the "Holder"). Terms not otherwise defined herein shall have the meaning contained in the Registration Rights Agreement.

This will confirm our understanding that the provisions of Section 5.4 of the Registration Rights Agreement become effective on and after one year after the date of the Registration Rights Agreement, i.e., March 17, 1999.

This will also confirm our understanding and agreement that the registered shares to be acquired by Holder on or about May 20, 1998 from Bank of America, which are available as a result of a "spot offering" by Company on May 20, 1998 (the "Bank of America Sale"), shall enjoy the benefits described in Section 5 of the Registration Rights Agreement applicable to Registrable Shares.

This will finally confirm our agreement that the parties will, after the date hereof, memorialize the agreements contained in this letter by execution of appropriate documentation by the Company and Holder.

To indicate your agreement with the foregoing, please execute a copy of this letter in the space provided below, and return it to me by telecopy.

Please call me if you have any comments or questions.

Very truly yours,

/s/ AMY H. WELLS

Amy H. Wells

/s/ DAVID GOLDBERG
- ----------
David Goldberg, Esq.

Exhibit 10.4

EMPLOYMENT AGREEMENT

PS Business Parks, Inc., a California Corporation (hereinafter referred to as "Employer") and J. Michael Lynch, a resident of the State of Maryland (hereinafter referred to as "Employee"), in consideration of the mutual promises hereinafter set forth, agree as follows:

ARTICLE 1.

EMPLOYMENT OF EMPLOYEE

1.1 SPECIFIED PERIOD: Employer hereby employs Employee and Employee hereby accepts employment with Employer for a period of one (1) year beginning the date last stated below, such period being referred to as the "Employment Term."

ARTICLE 2.

EMPLOYEE'S DUTIES AND OBLIGATIONS

2.1 GENERAL DUTIES: Employee shall serve as Vice President, Director of Acquisitions/Development of Employer subject to the direction and control of the Employer's Chief Executive Officer and Board of Directors. Employee shall be based at the Employer's headquarters, currently 701 Western Avenue, Suite 200, Glendale, CA 91201, as such may be changed from time to time.

2.2 DEVOTION TO EMPLOYER'S BUSINESS:

2.2.1 Employee shall devote, during the term of this Agreement, all or substantially all of his professional time, ability and attention to the business of Employer as is necessary to perform his duties and responsibilities inherent in his position in a prudent, reasonable and businesslike manner.

2.2.2 This Agreement, during its term, shall not be interpreted to prohibit Employee from making passive personal investments, provided that such investments do not materially interfere with the Employee's duties and services required by this Agreement, including, but not limited to, the competitive provisions of SECTION 2.3 hereof.

2.3 COMPETITIVE ACTIVITIES:

2.3.1 Without the consent in writing of employer, Employee shall not, during the term of his employment engage in activities that compete with Employer or its affiliate.

2.3.2 If a court or other authority having jurisdiction thereof determines that the foregoing competitive restriction is too broad or otherwise unreasonable under applicable law, including with respect to time or space, the court is hereby requested, directed and authorized by the parties hereto to revise the foregoing restriction to include the maximum restriction allowed under the applicable law. The Employee expressly agrees that his breach of the provisions of SECTION 2.3 would result in irreparable injuries to Employer, that the remedy at law for any such breach will be inadequate and that upon breach of this SECTION 2.3 Employer, in addition to all other available remedies, shall be entitled as a matter of right to injunctive relief in any court of competent jurisdiction.

2.3.3. Nothing herein shall prevent or prohibit the Employee, during his Employment, from owning less than five percent (5%) of the outstanding debt or equity securities of (i) any corporation whose securities are listed on any national securities exchange or on the Nasdaq Stock Market or (ii) any mutual fund or co-mingled investment entity registered under the Investment Company Act.

ARTICLE 3.

OBLIGATIONS OF EMPLOYER

3.1 GENERAL PROVISION: Employer shall provide Employee with the salary. Incentives and benefits specified in this Agreement and in Exhibit A.

3.2 OFFICE AND STAFF: Employer shall provide Employee with an office,

secretarial support, office equipment, supplies and other facilities and services reasonably suitable to Employee's position and adequate for the performance of his duties.

3.3 INDEMNIFICATION:

3.3.1 To the fullest extent permitted by law, Employee shall be indemnified and held harmless by Employer from and against any and all losses, claims, damages, liabilities (joint and several), expenses (including reasonable legal fees and expenses), costs, charges, judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings in which Employee may be involved, or threatened to be involved, as a party or otherwise by reason of Employee's status as an employee, officer or consultant of Employer if (a) Employee acted in good faith and in a manner he in good faith believed to be in, or not opposed to, the best interests of Employer, and, with respect to any criminal proceedings, had no reasonable cause to believe his conduct was unlawful, and (b) Employee's conduct did not constitute gross negligence or willful or wanton misconduct. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that Employee acted in a manner contrary to that specified in CLAUSE 3.3.1(a) or CLAUSE 3.3.1 (b) above.

3.3.2 To the fullest extent permitted by law, reasonable expenses (including legal fees and expenses) incurred by Employee in defending any claim, demand, action, suit or proceeding shall be advanced by Employer prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by Employer of a written undertaking by or on behalf of Employee to repay such amount if it shall be determined that Employee is not entitled to be indemnified as authorized in this Section.

3.3.3 The indemnification provided by this Section shall be in addition to any other rights which Employee may be entitled under any agreement, as a matter of law or otherwise, both as to action in Employee's capacity as an employee or consultant of Employer and to action in any other capacity.

ARTICLE 4.

COMPENSATION TO EMPLOYEE

4.1 BASE SALARY: As base compensation for the services to be performed hereunder, Employee shall receive a base annual salary of One hundred and Forty-Five Thousand Dollars ($145,000) commencing as of the date Employee's employment begins as specified in SECTION 1.1 of this Agreement. Such base salary shall be paid pursuant to the general payroll practices of Employer and shall be subject to increase from time to time, in the sole and absolute discretion of Employer.

4.2 ANNUAL BONUS:

4.2.1 For each year, or part thereof, of his employment Employee will be considered for receipt of an annual bonus. The payment and amount of the bonus shall be determined solely by Employer, in its sole and absolute discretion. At the discretion of the Chief Executive Officer of Employer, Employee shall be paid an annual bonus of up to Fifty Thousand Dollars ($50,000) based on satisfaction of goals and objectives to be determined by the Chief Executive Officer.

4.2.2 If this Agreement is terminated by Employer for cause, Employee shall not be entitled to an annual bonus for the fiscal year in which that termination occurs.

4.2.3 TAX WITHHOLDING: Employer shall have the right to deduct or withhold from the compensation due to Employee hereunder any and all sums required for federal, state, local and foreign income tax, Social Security taxes, unemployment insurance taxes, state compensation fund charges, and all other federal, state, local and foreign taxes, assessments and charges, as the case may be, now applicable or that may be enacted and become applicable in the future.

ARTICLE 5.

EMPLOYEE BENEFITS

5.1 VACATION, ILLNESS, LIFE INSURANCE AND OTHER BENEFITS: Employer shall provide Employee with vacation and illness time off, life insurance, medical insurance covering Employee and his immediate family, and such other fringe benefits as are customarily made available to employees of like status and tenure employed by Employer. Employee has been provided a copy of Employer's "benefits package", which he has read and understands as the benefits that will be available to him. Further, Employer reserves the right to change such benefits package.

5.2 STOCK OPTIONS: Employee has read Employer's stock options and understands its terms and conditions.

ARTICLE 6.

BUSINESS EXPENSES

6.1 BUSINESS EXPENSES:

6.1.1 Employer shall reimburse Employee for all expenses and disbursements reasonably incurred by Employee in the performance of Employee's duties for Employer during the Employment Term.

6.1.2 Each such expenditure shall be reimbursable only if Employee furnishes to Employer reasonable and adequate written records and other documentary evidence in accordance with Employer's policies established from time to time and as requested by federal and state law, and regulations issued by the appropriate taxing authorities, for the substantiation of each such expenditure as an income tax deduction.

ARTICLE 7.

TERMINATION OF EMPLOYMENT

7.1 TERMINATION FOR CAUSE:

7.1.1 Employer reserves the right to terminate this Agreement if: (i) Employee is convicted or pleads nolo contendere to a felony or a crime involving moral turpitude; (ii) Employee fails to perform Employee's duties as specified in the Agreement and fails to cure said failure within 15 days after written notice from Employer; or (iii) Employee commits fraud or theft against the Employer.

7.1.2 Subject to the notice and cure period set forth in SECTION 7.1.1 above, Employer may at its option terminate this Agreement for the reasons stated in this Section by giving written notice of termination to Employee without prejudice to any other remedy to which Employer may be entitled either at law, in equity or under this Agreement.

7.1.3 Termination under this SECTION 7.1 shall be considered "for cause" for the purposes of this Agreement.

7.1.4 In the event the Employee's employment is terminated for cause pursuant to SECTION 7.1.1 the Employer shall pay to the Employee the compensation, benefits and reimbursement of reasonable expenses otherwise payable to him as otherwise would have been payable pursuant to this Agreement through the last day of his actual employment by the Employer. The Employer shall have no further obligations to the Employee, and the Employee shall have no further rights, including, without limitation, rights to any compensation, whatsoever under this Agreement.

7.2 EFFECT OF MERGER, TRANSFER OF ASSETS OR DISSOLUTION:

7.2.1 This Agreement shall terminate by any voluntary or involuntary dissolution of Employer resulting from either a merger or consolidation in which Employer is not the consolidated or surviving corporation, or transfer of all or substantially all of the assets of Employer; provided, however, that this Section shall not apply in the case of any such merger or consolidation approved in writing by the Chief Executive Officer of Employer and in which the surviving or consolidated entity assumes the obligations of Employer under this Agreement. 7.2.2 Termination under this Section shall not be considered "for cause" for the purposes of this Agreement. In the event that the Employee is terminated pursuant to this Section, Employee shall be entitled to the same severance as if terminated without cause and, in addition, all options on stock of the Employer granted to Employee in respect of his employment which have not vested and become exercisable shall become exercisable at the time of closing of the transaction which terminates this Agreement pursuant to section 7.2.1 above.

7.3 TERMINATION BY EMPLOYER WITHOUT CAUSE:

7.3.1 Notwithstanding any provision of this Agreement to the contrary, if Employer terminates this Agreement without cause during its term (i) Employer shall immediately pay Employee's annual salary and fringe benefits and reimburse Employee for expenses in each case as set forth herein, earned or reimbursable and unpaid through the effective date of termination, and (ii), on the effective date of such termination, Employer shall also pay Employee, in a lump sum, the present value of the Employee's annual salary (based on the base salary being earned at the time of the notice of termination) for the remainder of the Employment Term as would otherwise be payable (based on a discount rate of 5%), but in no event will the payment under this (ii) be less than $72,500.00.

7.4 TERMINATION BY EMPLOYEE WITH CAUSE: Employee may terminate his obligations under this Agreement with cause after fifteen (15) days' written notice to Employer fully and accurately describing the cause for termination and Employer fails to cure the breach within such fifteen (15) day period. With "cause" shall mean a material and continuing breach by Employer in failing to pay to Employee amounts to which Employee is entitled under this Agreement. In the event Employee terminates this Agreement pursuant to this Section 7.4 (i) Employer shall immediately pay employee's annual salary and fringe benefits and reimburse Employee for expenses in each case as set forth herein, earned or reimbursable and unpaid through the effective date of termination, and (ii), on the effective date of such termination, Employer shall also pay Employee, in a lump sum of` the present value of the Employee's annual salary (based on the base salary being at the time of the notice of termination) for the remainder of the Employment Term as would otherwise be payable (based on a discount rate of 5%), but in no event less than $145,000.00.

ARTICLE 8.

GENERAL PROVISIONS

8.1 NOTICES: Any notices to be given hereunder by either party to the other may be effected by personal delivery in writing or by registered or certified mail, postage prepaid with return receipt requested, by nationally recognized overnight courier or by confirmed facsimile at the following addresses or facsimile numbers:

If to Employee: J. Michael Lynch
356 Homeland Southway
Baltimore, MD 21212

If to Employer: PS Business Parks, Inc.
701 Western Avenue, Suite 200
Glendale, CA 91201
Facsimile: (818) 244-9267
Attn: Office of General Counsel

Notices delivered personally shall be deemed communicated upon actual receipt; mailed notices shall be deemed communicated upon receipt of the mailing; notices sent by overnight courier shall be deemed communicated and received as of one (1) business day after delivery to the overnight courier; and notices sent by facsimile shall be deemed communicated and received as of the time the sender receives written confirmation of the sending of the facsimile.

8.2 ATTORNEYS' FEES AND COSTS: If any action in law or equity is necessary to enforce or interpret the terms of this Agreement, the non-prevailing party shall pay the reasonable attorneys' fees and costs of the prevailing party, unless otherwise provided by law or this Agreement. A party shall not be considered a prevailing party unless he or it prevails in substantially all of his or its position under dispute.

8.3 PARTIAL INVALIDITY: If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated.

8.4 APPLICABLE LAW: This Agreement shall be governed by and construed in accordance with the laws of the State of California as now enacted and as may hereafter be modified and/or amended.

8.5 CONSTRUCTION OF TERMS: The terms and provisions of this Agreement, which are freely negotiated as between the parties, shall not be construed either in favor of or against either party in the event of any ambiguity or uncertainty.

8.6 EMPLOYEE'S CONSULTATION WITH INDEPENDENT ATTORNEY: Employee expressly acknowledges that Employee has been requested to consult with independent legal counsel of Employee's choosing to review and have explained to Employee the legal significance and legal effect of the terms and conditions of this Agreement prior to Employee's execution of this Agreement. In this regard, Employee expressly acknowledges that the terms of this Agreement were not forced upon Employee by Employer, and that the terms of this Agreement were negotiable and were not "cast in stone," and that Employer has not imposed any time deadlines upon Employee with regard to the execution of this Agreement.

8.7 ENTIRE AGREEMENT: This Agreement supersedes any and all other agreements, either oral or in writing, between the parties with respect to that employment in any manner whatsoever. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding.

8.8 MODIFICATIONS: Any modification of this Agreement will be effective only if it is in writing and signed by the party to be charged.

8.9 WAIVER: A waiver of any of the terms and conditions hereof shall not be construed as a general waiver of the same or any other term or condition hereof or any subsequent breach thereof.

8.10 DISPUTE RESOLUTION: Any controversy or claim arising out of, or relating to, this Agreement or Employee's employment with Employer shall be settled by arbitration in Los Angeles, California in accordance with the rules of the American Arbitration Association then existing, and judgment on the arbitration award may be entered in any court having jurisdiction over the subject matter of the controversy. Employer and Employee agree to the personal jurisdiction of any court of competent subject matter jurisdiction in the County of Los Angeles for the enforcement of any order or judgment related hereto. The decision of the arbitrator shall be final and binding upon both parties. The prevailing party in any arbitration shall be entitled to its costs and expenses (including reasonable attorney's fees) incurred in connection with the arbitration from the other party. No punitive or exemplary damages may be awarded by the arbitrator. The foregoing provisions of this Section shall not be interpreted to restrict either party's right to pursue equitable relief from a court of competent jurisdiction.

8.11 WAIVER OF JURY TRIAL: BY AGREEING TO ARBITRATE, ALL PARTIES, AS A PRACTICAL MATTER, HAVE WAIVED THE RIGHT TO JURY TRIAL. The parties hereby waive trial by jury in any action, proceeding or counterclaim brought by any of them against any other party on any matters whatsoever arising out of or in any way connected with this Agreement, provided that all actions brought under this Agreement shall be brought in the State of California.

WHEREFORE, the parties hereby execute this Agreement this 20th day of May, 1998.

EMPLOYER:

PS BUSINESS PARKS, INC.

By: /s/ Ronald L. Havner, Jr.

Ronald L. Havner, Jr.
President and CEO

EMPLOYEE:

/s/ J. Michael Lynch

J. MICHAEL LYNCH

EXHIBIT A

EMPLOYMENT AGREEMENT FOR
J. MICHAEL LYNCH

1. 40,000 shares of the Company common stock options with a "strike price" of $23.50 each, vesting 1/3 for each of the first 3 years of employment.

2. A $30,000 signing bonus payable at the end of the first 30 days of employment.

3. A moving allowance of up to $20,000 to pay for all costs, incurred after the effective date of this agreement, related to relocating to Los Angeles, including, but not limited to moving household effects, transporting an automobile, house hunting trips and the final trip to transport family members to Los Angeles.

4. Participation in the Company's profit sharing program.

5. An automobile estimated usage allowance intended to reimburse employee for use of his business automobile usage.

REVOLVING CREDIT AGREEMENT

among

PS BUSINESS PARKS, L.P.

and

THE LENDERS LISTED HEREIN

as Lenders

and

Wells Fargo Bank, National Association,

as Agent

August 6, 1998

$100,000,000

EXHIBITS HAVE BEEN OMITTED AND WILL BE PROVIDED AT THE REQUEST OF THE SECURITIES AND EXCHANGE COMMISSION

TABLE OF CONTENTS

REVOLVING CREDIT AGREEMENT

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

referred to herein as the "Lender Parties" and each individually as a "Lender Party".

ARTICLE 1.

DEFINITIONS AND RELATED MATTERS

Section 1.1. Definitions. The following terms with initial capital letters have the following meanings:

"Accounts Payable" is defined in Section 6.1.

"Acquiport Two" means Acquiport Two Corporation, a Delaware corporation.

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

"Agent" is defined in the Preamble.

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

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

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. The term "control" means the possession, directly or indirectly, of the power, whether or not exercised, to direct or cause the direction of the management or policies of a Person, whether through the ownership of Capital Stock, by contract or otherwise, and the terms "controlled" and "common control" have correlative meanings. Unless otherwise indicated, "Affiliate" refers to an Affiliate of any Borrower Party. Notwithstanding the foregoing, in no event shall any Lender Party, any Affiliate of any Lender Party, or PSI be deemed to be an Affiliate of the Borrower.

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

"AOPP, Inc." means American Office Park Properties, Inc., a California corporation, predecessor to Guarantor.

"AOPP, L.P." means American Office Park Properties, L.P., a California limited partnership, currently known as Borrower.

"AMEX" means the American Stock Exchange.

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

"Applicable Margin" means, with respect to each Loan, the respective percentages per annum determined, at any time, based on the range into which Borrower's Credit Rating then falls, in accordance with the table set forth below. Any change in Borrower's Credit Rating causing it to move to a different range on the table shall effect an immediate change in the Applicable Margin (including existing Loans). Promptly after learning of a change in the Borrower's Credit Rating, Agent shall give notice of such change to the Lenders and include in such notice the new Applicable Margin and the effective date of such change. In the event that more than one (1) different Credit Rating has been assigned, the lower of the Credit Ratings will prevail.

GRID A:

	Range of Borrower's Credit Rating	Applicable Margin for Base Rate Loans (% per annum)	Applicable Margin for LIBOR Loans (% per annum)
Level I	A-/A3 or better	0.0	0.550
Level II	BBB+/Baa1	0.0	0.600

Level III	BBB/Baa2	0.0	0.750
Level IV	BBB-/Baa3	0.0	0.800
Level V	Unrated or Below Investment Grade	0.0	See Grid B

GRID B:

	Leverage	Applicable Margin for Base Rate Loans (% per annum)	Applicable Margin for LIBOR Loans (% per annum)
Level I	less than 25%	0.0	0.800
Level II	25% to 35%	0.0	0.850
Level III	35% to 45%	0.0	0.900
Level IV	greater than 45%	0.0	0.950

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

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

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

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

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

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

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

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

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

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

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

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

"Borrowing Period" means, with respect to each LIBOR Loan, a period commencing on a LIBOR Business Day and ending one (1), two (2), three (3) or six (6) months thereafter, as specified by the Borrower pursuant to Section 2.1. or

2.2. hereof (or, if requested by the Borrower and available to all the Lenders, a period commencing on a LIBOR Business Day and ending less than thirty (30) days thereafter), provided that any such period that would otherwise end on a day that is not a LIBOR Business Day shall be extended to the next succeeding LIBOR Business Day unless such LIBOR Business Day falls in another calendar month, in which case such period shall end on the next preceding LIBOR Business Day.

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

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

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

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

"Capital Stock" means, with respect to any Person, all (i) shares, interests, participations or other equivalents (howsoever designated) of capital stock and other equity interests of such Person and (ii) rights (other than debt securities convertible into capital stock or other equity interests), warrants or options to acquire any such capital stock or other equity interests.

"Capitalization Rate" means ten percent (10%).

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

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

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

"Change of Control" means the occurrence of any of the following events: (a) all or substantially all of the assets of the Borrower are sold, leased, exchanged or otherwise transferred to any Person or group of persons or entities acting in concert as a partnership or other group; (b) the Borrower is merged or consolidated with or into another corporation with the effect that the common stockholders of Borrower immediately prior to such merger or consolidation hold less than seventy-five percent (75%) of the ordinary voting power of the outstanding securities of the surviving corporation of such merger or the corporation resulting from such consolidation; (c) a change in the composition of the board of directors of the Borrower after the Closing Date as a result of which fewer than a majority of the incumbent directors are directors who either (i) had been directors of the Borrower twenty-four (24) months prior to such change, or (ii) were elected, or nominated for election, to the board of directors with the affirmative votes of a majority of the directors who had been directors of the Borrower twenty-four (24) months prior to such change and who

were still in office at the time of the election or nomination; or (d) a Person or group (as such term is used in Rule 13d-5 under the Securities Exchange Act of 1934) of Persons (other than PSI) and any Person eligible to file a statement on Schedule 13G pursuant to Rule 13d-1(b)(1) of the Securities Exchange Act of 1934) shall, as a result of a tender or exchange offer, open market purchases, merger, privately negotiated purchases or otherwise, have become, directly or indirectly, the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of securities having twenty-five percent (25%) or more of the ordinary voting power of then outstanding securities of the Borrower.

"Closing Date" means August 6, 1998 or such later date on which all conditions set forth in Section 3.1. have been satisfied.

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

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

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

"Compliance Certificate" is defined in Section 5.1.3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Excluded Tax" is defined in Section 2.10.1.

"Extension" is defined in Section 2.5.2.

"Extension Notice" is defined in Section 2.5.2.

"Facility Fee" is defined in Section 2.4.1.

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

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

"Fee Letter" means that certain letter dated August 5, 1998 between the Borrower and the Agent.

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

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

"Fixed Charges" means, for any Fiscal Quarter, and without duplication, Interest Expense for such Fiscal Quarter, plus scheduled principal amortization payments (other than balloon payments) on Debt of the Borrower Parties and the Consolidated Entities during such Fiscal Quarter, plus the Capital Expenditure Reserve.

"Fixed Rate Loan" means any LIBOR Rate Loan.

"Foreign Lender Party" is as defined in 2.10.3.

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

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

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

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

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

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

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

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

this definition;

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

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

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

"Guarantor" means PS Business Parks, Inc., a California corporation and with respect to any financial information referred to herein, AOPP, Inc.

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

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

"Hazardous Materials Laws" means all laws, ordinances and regulations relating to Hazardous Materials including, without limitation: the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of

1980, as amended (including the Superfund Amendments and Reauthorization Act of 1988, "CERCLA"), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601, et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and all comparable state and local laws, laws of other jurisdictions or orders and regulations.

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

"Indemnified Liabilities" is defined in Section 9.2.1.

"Indemnitee" is defined in Section 9.2.1.

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

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

"Interest Differential" means the amount as of the date of any prepayment of a LIBOR Rate Loan by which (a) the amount of interest that would have accrued on such LIBOR Rate Loan for the remainder of the applicable Borrowing Period exceeds (b) the amount of interest that would accrue on such LIBOR Rate Loan for the period from the date of prepayment of such LIBOR Rate Loan to the last day of the applicable Borrowing Period for such LIBOR Rate Loan if the LIBOR Rate

applicable to such LIBOR Rate Loan (the "Applicable Rate") were determined three (3) LIBOR Business Days prior to the date of prepayment of such LIBOR Rate Loan. The period commencing on the date of such prepayment and ending on the last day of the applicable Borrowing Period shall be deemed to be the "Borrowing Period" for determination of such Applicable Rate. The calculation of the Interest Differential by the Agent shall be conclusive in the absence of manifest error.

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

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

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

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

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

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

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

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

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

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

"LIBOR Fee" is defined in Section 2.9.1.

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

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

"LIBOR Rate" means, with respect to any LIBOR Rate Loan, the rate per annum (rounded upward to the next 1/16th of one percent) at which deposits in United

States Dollars are offered by the Agent in the Designated Market at approximately 8:00 a.m. (Pacific Coast time) three (3) LIBOR Business Days prior to the first day of the applicable Borrowing Period in an amount approximately equal to such LIBOR Rate Loan, and for a period of time comparable to the number of days in the applicable Borrowing Period; provided, however, that if the Agent shall fail as a result of the occurrence of a Special Circumstance to determine the LIBOR Rate as provided in Section 2.1.2.3., no LIBOR Rate shall be available with respect to such LIBOR Rate Loan, and such LIBOR Rate Loan shall become a Base Rate Loan until further designation pursuant to Section 2.1.2. The determination of the LIBOR Rate by the Agent shall be conclusive in the absence of manifest error.

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

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

"Liquidated Cost" shall have the meaning set forth in Section 2.

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

"Loan Account" is defined in Section 2.3.3.

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

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

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

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

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

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

"Material," "Material Adverse Effect" or "Material Adverse Change" means (i) a condition, circumstance or event material to, (ii) a material adverse effect on or (iii) a material adverse change in, as the case may be, any one or more of the following: (A) the business, assets, results of operations or financial condition of a Borrower Party or (B) the ability of any Borrower Party to perform its obligations under any Loan Document to which it is a party. "Materially" has a correlative meaning.

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

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

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

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

"Net Income" means, for any period, without duplication, total net income (or loss) of the Borrower Parties and the Consolidated Entities for such period taken as a single accounting period, including the Borrower Parties' pro rata share of the income (or loss) of any Unconsolidated Joint Venture for such

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

"Net Worth" means, at any date, the consolidated stockholders' equity of the Borrower and the Consolidated Entities, excluding any amounts attributable to mandatorily redeemable preferred stock (other than preferred stock redeemable solely with common stock).

"Nonrecourse Debt" means any indebtedness: (a) under the terms of which the payee's remedies upon the occurrence of an event of default are limited to specific, identified assets of a Borrower Party which secure such indebtedness; and (b) for the repayment of which such Borrower Party has no personal liability beyond the loss of such specified assets, except for liability for fraud, material misrepresentation or misuse or misapplication of insurance proceeds, condemnation awards or rents, waste, existence of hazardous wastes or other customary exceptions to nonrecourse provisions.

"Note" means a Revolving Loan Note.

"Notice of Borrowing" is defined in Section 2.1.2.

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

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

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

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

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

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

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

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

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

"Participant" means any holder of a Participation.

"Participation" is defined in Section 9.6.3.

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

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

"Permitted Liens" means:

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

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

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

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

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

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

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

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

"Prescribed Forms" is defined in Section 2.10.3.

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

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

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

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

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

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

"Property Income" means, for any Real Property, all gross revenue from the ownership and/or operation of such Real Property (but excluding income from a sale or other capital item transaction), service fees and charges, tenant

expense reimbursement income payable with respect to such Real Property (but not such reimbursement for expenditures not included as a Property Expense) and the proceeds of any business or rental interruption insurance with respect to such Real Property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Rent Roll" means, with respect to any Real Property, a rent roll for such

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

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

"Reportable Event" means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, except any such event (other than the failure to meet minimum funding standards of Section 412 of the Code or Section 302 of ERISA) as to which the provision for 30 days' notice to the PBGC is waived under applicable regulations.

"Responsible Officer" is defined in Section 2.1.2.6.

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

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

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

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

"Revolving Loan" is defined in Section 2.1.

"Revolving Loan Note" means a Revolving Loan Note made by the Borrower payable to the order of any Lender, in the amount of the lesser of (i) such Lender's Revolving Commitment and (ii) the aggregate principal amount of Revolving Loans made by such Lender, which note is substantially in the form of Exhibit A-1, as amended from time to time.

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

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

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

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

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

"Shareholders' Agreement" means that certain Agreement Among Shareholders And Company dated as of December 23, 1997 among Acquiport Two, AOPP, Inc., AOPP, L.P. and PSI as amended by that certain letter agreement amongst such parties dated January 21, 1998.

"Single Employer Plan" means a Plan other than a Multiemployer Plan.

"Solvent" means, with respect to any Person, that: (i) the total present fair salable value of such Person's assets on a going concern basis is in excess of the total amount of such Person's liabilities, including contingent liabilities; (ii) such Person is able to pay its liabilities and contingent liabilities as they become due; and (iii) such Person does not have unreasonably small capital to carry on such Person's business as theretofore operated and as proposed to be operated.

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

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

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

"Tangible Net Worth" means, at any time, Net Worth minus Intangible Assets at such time.

"Tax Expense" means (without duplication), for any period, total tax expense (if any) attributable to income and franchise taxes based on or measured by income, whether paid or accrued, of the Borrower Parties and the Consolidated Entities, including the Borrower Parties' and Consolidated Entity's pro rata share of tax expenses in any Unconsolidated Joint Venture. For purposes of this definition, a Borrower Party's pro rata share of any such tax expense of any Unconsolidated Joint Venture shall be deemed equal to the product of (i) such tax expense of such Unconsolidated Joint Venture, multiplied by (ii) the percentage of the total outstanding Capital Stock of such Person held by the Borrower Parties or any Consolidated Entity, expressed as a decimal.

"Taxes" means any present or future income, stamp and other taxes, charges, fees, levies, duties, imposts, withholdings or other assessments, together with any interest and penalties, additions to tax and additional amounts imposed by any federal, state, local or foreign taxing authority upon any Person.

"Termination Event" means: (i) a Reportable Event or an event described in Section 4068(f) of ERISA; (ii) the withdrawal of the Borrower or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or the cessation of operations at a facility in the circumstances described in Section 4068(f) of ERISA; (iii) the filing of a notice of intent to terminate a Defined Benefit Plan (including any such notice with respect to a Defined Benefit Plan amendment referred to in Section 4041(e) of ERISA) or the termination of a Defined Benefit Plan excluding, for purposes of this clause (iii), any standard termination under Section 4041(b) of ERISA; (iv) the institution of proceedings to terminate a Defined Benefit Plan by the PBGC; or (v) the appointment of a trustee to administer any Defined Benefit Plan under Section 4042 of ERISA; or (vi) any other event or condition that might reasonably constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Defined Benefit Plan.

"To the best of knowledge of" means, when modifying a representation, warranty or other statement of any Person, that the fact or situation described therein is known by the Person (or, in the case of a Person other than a natural person, known by a Responsible Officer of that Person) making the representation, warranty or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable man in similar circumstances would have done) should have been known by the Person (or, in the case of a Person other than a natural person, should have been known by a Responsible Officer of that Person).

"Total Liabilities" means, at any time, without duplication, the aggregate amount of (i) all Debt and other liabilities of the Borrower Parties and the Consolidated Entities reflected in the financial statements of the Borrower Parties or disclosed in the financial notes thereto, plus (ii) all liabilities of all Unconsolidated Joint Ventures that is otherwise recourse to the Borrower Parties or any Consolidated Entity or any of their respective assets or that otherwise constitutes Debt of any Borrower Party or any Consolidated Entity, plus (iii) the Borrower Parties' pro rata share of all Debt and other

liabilities of any Unconsolidated Joint Venture not otherwise constituting Debt of or recourse to any Borrower Party or any Consolidated Entity or any of its assets. For purposes of clause (iii), the Borrower Parties' pro rata share of all Debt and other liabilities of any Unconsolidated Joint Venture shall be deemed equal to the product of (a) such Debt or other liabilities, multiplied by (b) the percentage of the total outstanding Capital Stock of such Person held by a Borrower Party or any Consolidated Entity, expressed as a decimal.

"Trademarks" means trademarks, servicemarks and trade names, all registrations and applications to register such trademarks, servicemarks and trade names and all renewals thereof, and the goodwill of the business associated with or relating to such trademarks, servicemarks and trade names, including without limitation any and all licenses and rights granted to use any trademark, servicemark or trade name owned by any other person.

"Type" is defined in Section 2.1.1.

"Unconsolidated Joint Venture" means (i) any Joint Venture of any Borrower Party or any Consolidated Entity in which any Borrower Party or such Consolidated Entity holds any Capital Stock but which would not be combined with a Borrower Party in the consolidated financial statements of such Borrower Party in accordance with GAAP, and (ii) any Investment of the Borrower or any Consolidated Entity in any Person that is not a Joint Venture.

"Unencumbered Asset Value" means, at any time, with respect to Unencumbered Assets that have been Wholly-Owned for at least one full Fiscal Quarter at such time, the product of the Property NOI of such Unencumbered Assets during the period of the full Fiscal Quarter ended most recently, multiplied by 4, less the product of (i) $.95 multiplied by (ii) the gross rentable square footage of all Unencumbered Assets that have been Wholly-Owned owned for such period, divided by the Capitalization Rate plus Cash and Cash Equivalents (excluding tenant deposits and other restricted cash).

"Unencumbered Asset" means any Real Property designated by Borrower that satisfies all of the following conditions:

(i) is an Office Park Property;

(ii) is free and clear of any Lien, other than (a) easements, covenants, and other restrictions, charges or encumbrances not securing Indebtedness that do not interfere materially with the ordinary operations of such Real Property and do not materially detract from the value of such Real Property; (b) building restrictions, zoning laws and other Requirements of Law that do not interfere materially with the ordinary operations of such Real Property and do not materially detract from the value of such Real Property; (c) leases and subleases of such Real Property in the ordinary course of business; and (d) Permitted Liens and no condition exists with respect to such Real Property which could give rise to Environmental Damages;

(iii) is Wholly-Owned; and

(iv) after adding such Real Property to the Unencumbered Pool, the Real Properties in the Unencumbered Pool shall not have an aggregate Occupancy Rate less than ninety percent (90%).

As of the date hereof all Unencumbered Assets are described on Schedule 1.1C, provided that if any Unencumbered Asset (including any of the properties listed on Schedule 1.1C) no longer satisfies any of the conditions set forth in the foregoing clauses (i) through (iv), inclusive, the Majority Lenders shall have the right, at any time and from time to time, to notify the Borrower that, effective upon the giving of such notice, such asset shall no longer be considered an Unencumbered Asset. If the Borrower intends to designate a Real Property as an Unencumbered Asset to be added to the Unencumbered Pool from time to time, it will notify the Agent of such intention, which notice will include, with respect to such Real Property, the Property Information with respect to such Real Property, and such other information and items as may be reasonably requested by Agent with respect to such Real Property. Upon Agent's concurrence that the evidence presented by Borrower is sufficient to show that such Real Property constitutes an Unencumbered Asset, it shall be added to the Unencumbered Pool. If the Borrower at any time intends to withdraw any Real Property from the Unencumbered Pool, it shall (A) notify the Agent of its intention, and (B) deliver to the Agent a certificate of its chief financial officer, chief executive officer or chief operating officer setting forth the calculations establishing that the Borrower will be in compliance with this Agreement after giving effect to such withdrawal (and any concurrent addition of Real Properties to the Unencumbered Pool), which calculations shall be in such detail, and otherwise in such form and substance, as Agent reasonably requires. Effective automatically upon receipt of such notice and certificate by the Agent (or upon any later date stated in such notice), such Real Property shall no longer constitute an Unencumbered Asset.

"Unencumbered Pool" means the pool of Unencumbered Assets.

"Unencumbered Net Operating Income" means that portion of Property NOI derived from Unencumbered Assets.

"Unsecured Interest Expense" means Interest Expense other than that attributable to liabilities which are Secured Debt.

"Wholly-Owned" means, with respect to any Office Park Property or other asset owned, that (i) title to such asset is held directly by the Borrower or Guarantor, or (ii) in the case of Office Park Property, title to such property is held by a Consolidated Entity at least 99% of the Capital Stock of which is held of record and beneficially by the Borrower or Guarantor and the balance of the Capital Stock of which (if any) is held of record and beneficially by the Guarantor (or any wholly-owned Subsidiary of the Guarantor).

Section 1.2. Related Matters.

1.2.1. Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, the singular includes the plural, the part includes the whole, "including" is not limiting, and "or" has the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder" and similar terms in this Agreement refer to this Agreement as a whole (including the Preamble, the Recitals, the Schedules and the Exhibits) and not to any particular provision of this Agreement. Article, section, subsection, exhibit, schedule, recital and preamble references in this Agreement are to this Agreement unless otherwise specified. References in this Agreement to any agreement, other document or law "as amended" or "as amended from time to time," or to amendments of any document or law, shall include any amendments, supplements, replacements, renewals, waivers or other modifications not prohibited by the Loan Documents. References in this Agreement to any law (or any part thereof) include any rules and regulations promulgated thereunder (or with respect to such part) by the relevant Governmental Authority, as amended from time to time.

1.2.2. Determinations. Except as expressly provided otherwise in Article 2, any determination or calculation contemplated by Article 2 of this Agreement that is made by any Lender Party shall be final and conclusive and binding upon the Borrower, and, in the case of determinations by the Agent, also the other Lender Parties, in the absence of manifest error. References in this Agreement to any "determination" by any Lender Party include good faith estimates by such Lender Party (in the case of quantitative determinations), and good faith beliefs by such Lender Party (in the case of qualitative determinations). All references herein to "discretion" of any Lender Party (or terms of similar import) shall mean "absolute and sole discretion." All consents and other actions of any Lender Party contemplated by this Agreement may be given, taken, withheld or not taken in such Lender Party's discretion (whether or not so expressed), except as otherwise expressly provided herein.

1.2.3. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared on a consolidated basis in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the independent public accountants of the Borrower) with the audited consolidated financial statements of the Borrower and Guarantor referred to in Section 4.5.

1.2.4. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA (OTHER THAN CHOICE OF LAW RULES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION).

1.2.5. Headings. The Article and Section headings used in this Agreement are for convenience of reference only and shall not affect the construction hereof.

1.2.6. Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable under Applicable Law in any jurisdiction, such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability, which shall not affect any other provisions hereof or the validity, legality or enforceability of such provision in any other jurisdiction.

1.2.7. Independence of Covenants. All covenants under this Agreement shall each be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by another covenant, by an exception thereto, or be otherwise within the limitations thereof,

shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

1.2.8. Exhibits, Etc. All of the appendices, exhibits and schedules attached to this Agreement shall be deemed incorporated herein by reference.

1.2.9. Other Definitions. Terms otherwise defined in Preamble, the Recitals, and in any other provision of this Agreement or any of the other Loan Documents not defined or referenced in Section 1.1. have their respective defined meanings when used herein or therein.

ARTICLE 2.

AMOUNTS AND TERMS OF THE CREDIT FACILITIES

Section 2.1. Revolving Loans. Each Lender severally agrees, upon the terms and subject to the conditions set forth in this Agreement, at any time from and after the Closing Date until the Business Day next preceding the Revolving Commitment Termination Date, to make revolving loans (each a "Revolving Loan") to the Borrower in an aggregate principal amount not to exceed at any time outstanding, when added to other Revolving Commitment Usage of such Lender at such time, the Revolving Commitment of such Lender, provided that the Revolving Commitment Usage of all Lenders at any time, in the aggregate, shall not exceed the lesser of (i) aggregate Revolving Commitments of all Lenders and (ii) Availability.

2.1.0.1. Revolving Loans may be voluntarily prepaid pursuant to Section 2.6.2. and, subject to the provisions of this Agreement, any amounts so prepaid may be re-borrowed, up to the amount available under this Section 2.1. at the time of such re-borrowing.

2.1.1. Type of Loans and Minimum Amounts. Loans made under this Section 2.1. may be Base Rate Loans or LIBOR Rate Loans (each a "Type" of Loan), subject, however, to Section 2.2.2.

2.1.1.1. Each Borrowing of Loans (other than LIBOR Rate Loans) shall be in a minimum aggregate amount of Two Hundred Thousand Dollars ($200,000.00) and integral multiples of Ten Thousand Dollars ($10,000.00). Unless the Agent otherwise consents in writing: (i) the principal amount of each LIBOR Rate Loan shall be an integral multiple of Ten Thousand Dollars ($10,000.00), but not less than Two Hundred Thousand Dollars ($200,000.00); and (ii) no more than fifteen (15) LIBOR Rate Loans shall be permitted to be outstanding at any one time.

2.1.2. Notice of Borrowing.

2.1.2.1. When the Borrower desires to borrow Loans pursuant to Section 2.1., it shall deliver to the Agent a Notice of Borrowing substantially in the form of Exhibit B-1, duly completed and executed by a Responsible Officer (each such notice shall be referred to herein as a "Notice of Borrowing"), no later than 9:00 a.m. (Pacific Coast time) (a) at least one Business Day before the proposed Funding Date in the case of a Borrowing of Base Rate Loans, or (b) at least three LIBOR Business Days before the proposed Funding Date, in the case of a Borrowing of LIBOR Rate Loans. Except to the extent designated as a LIBOR Rate Loan pursuant to this Section 2.1.2., the unpaid principal balance of all Loans shall constitute a Base Rate Loan, and each LIBOR Rate Loan shall become a Base Rate Loan on the last day of the applicable Borrowing Period.

2.1.2.2. Subject to the terms and conditions set forth in this Agreement, at any time and from time to time from the Closing Date to the LIBOR Business Day next preceding the Revolving Commitment Termination Date, the Borrower may request that any portion of requested or outstanding Loans be designated, pro rata as to each Lender according to the Commitment of that Lender, as a LIBOR Rate Loan, provided that the amount included in any such request shall not exceed the aggregate Revolving Commitments less the aggregate Revolving Commitment Usage (other than LIBOR Rate Loans with respect to which the last day in the applicable Borrowing Period coincides with the first day in the Borrowing Period applicable to the proposed LIBOR Rate Loan).

2.1.2.3. As soon as practicable after receipt of a Notice of Borrowing pursuant to Section 2.1.2.2., the Agent shall determine the applicable LIBOR Rate (which determination shall be conclusive in the absence of manifest error) and shall promptly (and in any event not later than 9:00 a.m. Pacific Coast time on the date of receipt of such request) give notice of the same to the Borrower by telephone; at the time of receipt of such telephonic notice, the Borrower shall immediately either accept such rate for the Loan in question or reject such rate, in which case the Borrower's Notice of Borrowing with respect to such Loan shall be ineffective.

2.1.2.4. If the Borrower gives confirmation by 9:00 a.m., Pacific Coast time, on the date of delivery of a Notice of Borrowing pursuant to Section 2.1.2.1., that it accepts the applicable LIBOR Rate for the LIBOR Rate Loan in question, as provided in Section 2.1.2.3., the Agent shall, prior to 10:00 a.m., Pacific Coast time, three (3) Business Days before any LIBOR Rate Loan, give notice to each Lender by telephone, telecopier or telex stating (i) the effective date of the LIBOR Rate Loan, (ii) the amount of the LIBOR Rate Loan and (iii) the applicable LIBOR Rate. In no event shall the Agent's failure to so notify each Lender affect the Borrower's election of the LIBOR Rate with respect to any Loan.

2.1.2.5. Upon fulfillment of the applicable conditions set forth in this Section 2.1.2. and in Section 3.2., the LIBOR Rate quoted to and accepted by the Borrower pursuant to Section 2.1.2.3. shall become effective with respect to the LIBOR Rate Loan in question on the first day of the applicable Borrowing Period.

2.1.2.6. The Borrower shall notify the Agent of the names of its officers and employees of its general partner which are authorized to request and take other actions with respect to loans on behalf of the Borrower (each a "Responsible Officer") by providing the Agent with a Notice of Responsible Officers substantially in the form of Exhibit B-3, duly completed and executed by a Senior Officer (a "Notice of Responsible Officer"). The Agent shall be entitled to rely conclusively on a Responsible Officer's authority to request and take other actions with respect to Loans on behalf of the Borrower until the Agent receives a new Notice of Responsible Officer that no longer designates such Person as a Responsible Officer. The Agent shall have no duty to verify the authenticity of the signature appearing on any Notice of Borrowing, Notice of Responsible Officer or any other notice given under the Loan Documents.

2.1.2.7. Except as provided in Section 2.1.2.3., any Notice of Borrowing delivered pursuant to this Section 2.1.2. shall be irrevocable and the Borrower shall be bound to make a borrowing in accordance therewith.

2.1.2.8. The Agent shall promptly notify each Lender of the contents of any Notice of Borrowing received by it and such Lender's pro rata portion of the Borrowing requested. Not later than 10:00 a.m. (Pacific Coast time) on the date specified in such notice as the Funding Date, each Lender, subject to the terms and conditions hereof, shall make its pro rata portion of the Borrowing available, in immediately available funds, to the Agent at the Agent's Account.

2.1.3. Funding.

Not later than 12:00 noon (Pacific Coast time) or such later time as may be agreed to by the Borrower and the Agent, and subject to and upon satisfaction of the applicable conditions set forth in Article 3 as determined by the Agent, the Agent shall make the proceeds of the requested Loans available to the Borrower in Dollars in immediately available funds in the Borrower Account.

Section 2.2. Interest; Late Charge; Conversion/Continuation.

2.2.1. Interest Rate and Payment.

2.2.1.1. Each Loan shall bear interest on the unpaid principal amount thereof, from and including the date of the making of such Loan to and excluding the due date or the date of any repayment thereof, at the following rates per annum: (a) for so long as and to the extent that such Loan is a Base Rate Loan, at the Base Rate (as in effect from time to time) (b) for so long as and to the extent that such Loan is a LIBOR Rate Loan, at the LIBOR Rate for each Borrowing Period applicable thereto plus the Applicable Margin.

2.2.1.2. In the event that the Borrower fails to pay any interest payable under this Agreement on or prior to the expiration of ten (10) days after such interest first becomes due and payable, the Borrower shall pay to the Agent for the pro rata benefit of the Lenders a late charge equal to four percent (4%) of the amount of such unpaid interest payment. The Borrower acknowledges and agrees that an accurate determination of the Lender Parties' damages as a result of the Borrower's failure to pay interest as and when due hereunder is not reasonably practicable, and the late charge provided for herein is a reasonable estimate of the amount of additional cost and the value of the loss of use of funds that will be suffered by the Lender Parties in the event that an interest payment is not paid when due.

2.2.1.3. Notwithstanding the foregoing provisions of this Section 2.2.1., any interest payable under this Agreement and the other Loan Documents that is not paid within thirty (30) days after the date such amount is due, or any principal or other amount payable under this Agreement that is not paid when due, shall in each case thereafter bear interest at a rate per annum equal to the Post-Default Rate, without notice or demand of any kind. Such interest at the Post-Default Rate shall be in addition to, and not in lieu of, the late charge provided for in Section 2.2.1.2.

2.2.1.4. Accrued interest shall be payable in arrears (a) in the case of any Type of Loan, on each Periodic Payment Date; and (b) in the case of any Loan, when the Loan shall become due (whether at maturity, by reason of prepayment, acceleration or otherwise).

2.2.1.5. In order to assure timely payment to Agent of accrued interest, principal, fees and late charges due and owing under the Loans, Borrower hereby irrevocably authorizes Agent to directly debit Borrower's demand deposit account with Agent, account number 4828-665364, for payment when due of all such amounts payable hereunder. Borrower represents and warrants to Agent that Borrower is the legal owner of said account. Written confirmation of the amount and purpose of any such direct debit shall be given to Borrower by Agent not less frequently than monthly. In the event any direct debit hereunder is returned for insufficient funds, Borrower shall pay Agent upon demand, in immediately available funds, all amounts and expenses due and owing to Agent.

2.2.2. Conversion or Continuation.

2.2.2.1. Subject to Section 2.1.2. and this Section 2.2.2., the Borrower shall have the option (a) at any time, to convert all or any part of its outstanding Base Rate Loans to Fixed Rate Loans, or (b) upon the expiration of any Borrowing Period applicable to a Fixed Rate Loan, to continue all or any portion of such Loan as a Fixed Rate Loan provided that, there does not exist a Default or an Event of Default at such time. If a Default or an Event of Default shall exist upon the expiration of the Borrowing Period applicable to any Fixed Rate Loan, such Loan automatically shall be converted into a Base Rate Loan.

2.2.2.2. If the Borrower elects to convert or continue a Loan under this Section 2.2.2., it shall deliver to the Agent a Notice of Continuation/Conversion substantially in the form of Exhibit B-5, duly completed and executed by a Responsible Officer (a "Notice of Continuation/Conversion"), not later than 10:00 a.m. (Pacific Coast time) at least three LIBOR Business Days before the proposed conversion or continuation date, if the Borrower proposes to convert into, or to continue, a LIBOR Rate Loan.

2.2.2.3. Any Notice of Continuation/Conversion shall be irrevocable and the Borrower shall be bound to convert or continue in accordance therewith. If any request for the conversion or continuation of a Loan is not made in accordance with this Section 2.2.2., or if no notice is so given with respect to a LIBOR Rate Loan as to which the Borrowing Period expires, then such Loan automatically shall be converted into a Base Rate Loan.

2.2.3. Computations. Interest on each Loan and all Fees and other amounts payable hereunder or the other Loan Documents shall be computed on the basis of a 360-day year and the actual number of days elapsed. Any change in the interest rate on any Loan or other amount resulting from a change in the rate applicable thereto (or any component thereof) pursuant to the terms hereof shall become effective as of the opening of business on the day on which such change in the applicable rate (or component) shall become effective.

2.2.4. Maximum Lawful Rate of Interest. The rate of interest payable on any Loan or other amount shall in no event exceed the maximum rate permissible under Applicable Law. If the rate of interest payable on any Loan or other amount is ever reduced as a result of this Section and at any time thereafter the maximum rate permitted by Applicable Law shall exceed the rate of interest provided for in this Agreement, then the rate provided for in this Agreement shall be increased to the maximum rate provided by Applicable Law for such period as is required so that the total amount of interest received by the Lenders is that which would have been received by the Lenders but for the operation of the first sentence of this Section.

Section 2.3. Notes, Etc.

2.3.1. Loans Evidenced by Notes. The Revolving Loans made by each Lender shall be evidenced by a single Revolving Loan Note in favor of such Lender. The Revolving Loan Notes shall each be dated the Closing Date and stated to mature in accordance with the provisions of this Agreement applicable to the relevant Loans.

2.3.2. Notation of Amounts and Maturities, Etc. The Agent is hereby irrevocably authorized to generate a computer record of the information contemplated by Schedule A to the Notes and to attach same to the Notes (or a continuation thereof). The failure to record, or any error in recording, any such information shall not, however, affect the obligations of the Borrower hereunder or under any Note to repay the principal amount of the Loans evidenced thereby, together with all interest accrued thereon. All such notations shall constitute conclusive evidence of the accuracy of the information so recorded, in the absence of manifest error.

2.3.3. Loan Account. The Agent shall maintain a loan account (the "Loan Account") on its books in which shall be recorded (a) all Loans made by the Lenders to the Borrower pursuant to this Agreement, (b) all other appropriate debits and credits as and when due in accordance with this

Agreement, including all Fees, charges, expenses and interest, and (c) all payments made by the Borrower on the Obligations. All entries in the Loan Account shall be made in accordance with the customary accounting practices of the Agent as in effect from time to time.

Section 2.4. Fees.

2.4.1. Facility Fee. On each October 1, January 1, April 1 and July 1 of each year, the Borrower shall pay in advance to the Agent, for the pro rata benefit of the Lenders, a facility fee for the Fiscal Quarter then commencing equal to one-fourth of the product of (i) the aggregate Commitments times (ii) 0.25% ("Facility Fee"). On or before the Closing Date, Borrower shall pay to the Agent, for the pro rata benefit of the Lenders, the Facility Fee due for the period from the Closing Date to October 1, 1998.

2.4.2. Extension Fee. If an extension occurs pursuant to Section 2.5.2. as of the first anniversary of the Closing Date, then the Borrower shall pay to the Agent, for the pro rata benefit of the Lenders, an extension fee equal to .05% per annum of the aggregate amount of the Revolving Commitments. The extension fee due for any subsequent extension pursuant to Section 2.5.2 shall be equal to .10% per annum of the aggregate amount of the Revolving Commitments.

2.4.3. Other Fees. On the Closing Date and from time to time thereafter as specified in the Fee Letter, the Borrower shall pay to the Agent the fees specified in the Fee Letter.

2.4.4. Fees Non-Refundable. All fees shall be fully earned when accrued hereunder and shall be non-refundable.

Section 2.5. Termination and Reduction of Revolving Commitment; Extension.

2.5.1. Termination. Unless extended pursuant to Section 2.5.2. hereof, each Lender's Revolving Commitment shall terminate without further action on the part of such Lender on the earlier to occur of (a) the Maturity Date (or if that date is not a Business Day, the next preceding LIBOR Business Day) (the "Stated Revolving Commitment Termination Date"), and (b) the date of termination of the Revolving Commitment pursuant to Section 7.2. (such earlier date being referred to herein as the "Revolving Commitment Termination Date").

2.5.2. Extension. Borrowers may request extensions of the Maturity Date by making such request to Agent ("Extension Notice") in writing at least ninety (90) days prior to each anniversary of the Closing Date. The Agent and the Lenders have no obligation to extend the Maturity Date and the Maturity Date shall not be extended unless (i) the Borrower is in full compliance with all of the terms, conditions and covenants of this Agreement at the time of request and on the applicable anniversary Date, (ii) all of the Lenders and the Agent have

agreed to do so in writing, (iii) Borrower shall, on or prior to the applicable anniversary, have executed and delivered to the Agent an extension agreement in the form provided by Agent, and (iv) Borrower shall, on or prior to the applicable anniversary, provided all Lenders shall have approved the request, have remitted to the Agent the extension fee due pursuant to Section 2.4.2. If Borrower's request for extension is approved and the other foregoing conditions are met, then (i) the extension of the Maturity Date shall be for a period of one (1) year and (ii) such extension shall be effective as of the applicable anniversary. The Agent and the Lenders shall have a period of forty-five (45) days from receipt of written notice of Borrowers' intention to extend the Maturity Date to approve such extension, in their sole and absolute discretion. If Borrower has not received written notice of the Lenders' intention to extend the Maturity Date within such forty-five (45) day period, then the extension request shall be deemed to be not approved. If an extension is granted, Borrower may request subsequent one (1) year extensions subject to the same criteria and procedures established in this Section 2.5.2. As an example, in order to extend the initial Maturity Date, Borrower must notify Agent at least ninety (90) days prior to August 6, 1999. If approved, the Maturity Date would then be extended from August 6, 2000 to August 6, 2001. In the event that Borrower's initial request for extension is not granted, any subsequent request for extension is not granted, or Borrower does not request an extension pursuant to this Section 2.5.2, then, commencing on the Maturity Date, Borrower shall no longer be able to obtain Loans hereunder and all outstanding Loans shall become all due and payable.

Section 2.6. Repayments and Prepayments.

2.6.1. Mandatory Prepayment.

2.6.1.1. Excess Revolving Loans. (i) If at any time the aggregate Revolving Commitment Usage of all Lenders exceeds the aggregate amount of the Revolving Commitments, the Borrower shall, on or prior to two (2) Business Days after the day on which a Responsible Officer of the Borrower learns or is

notified of the excess, make mandatory prepayments of the Revolving Loans as may be necessary so that, after such prepayment, such excess is eliminated.

(ii) If at any time on or prior to the Revolving Commitment Termination Date, there is an Overdraw, the Borrower shall, on or prior to two (2) Business Days after the day on which a Responsible Officer of the Borrower learns or is notified of the Overdraw, make mandatory prepayments of the Revolving Loans as may be necessary, so that, after such prepayment, such Overdraw is eliminated (unless prior thereto the Borrower has taken such actions as have resulted in a sufficient increase in Availability to eliminate such Overdraw).

(iii) Each Mandatory Prepayment shall be applied to the unpaid principal amount of Revolving Loans; provided that each Mandatory Prepayment shall be applied first to reduce the Base Rate Loan constituting a portion of the respective Loan and then to the Fixed Rate Loans constituting a portion thereof, in the order of termination of Borrowing Periods applicable thereto. Each Mandatory Prepayment shall be made together with accrued interest on the amount prepaid to the date of prepayment.

2.6.2. Optional Prepayments

2.6.2.1. Subject to this Section 2.6.2., the Borrower may, at its option, at any time or from time to time, prepay the Loans in whole or in part, without premium or penalty, provided that (a) any prepayment shall be in an aggregate principal amount of at least Two Hundred Thousand Dollars ($200,000.00) and in integral multiples of Ten Thousand Dollars ($10,000.00) (or, alternatively, the whole amount of Loans then outstanding) and (b) any prepayment of a Fixed Rate Loan, if made on a day other than the last day of the Borrowing Period applicable thereto, shall be made with amounts payable pursuant to Section 2.9.5.

2.6.2.2. If the Borrower elects to prepay a Loan under this Section 2.6.2.2., it shall deliver to the Agent a notice of optional prepayment (a) not later than 10:00 a.m. (Pacific Coast time) at least three LIBOR Business Days before the proposed prepayment, if the Borrower proposes to prepay a LIBOR Rate Loan, and (b) otherwise not later than 10:00 a.m. (Pacific Coast time) on the Business Day on which Borrower proposes to prepay a Loan. Any notice of optional prepayment shall be irrevocable, and the payment amount specified in such notice shall be due and payable on the date specified in such notice. Each optional prepayment shall be applied pro-rata to the unpaid principal amount of Revolving Loans.

2.6.3. Payments Set Aside. To the extent the Agent or any Lender receives payment of any amount under the Loan Documents, whether by way of payment by the Borrower, the Guarantor, set-off or otherwise, which payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, other law or equitable cause, in whole or in part, then, to the extent of such payment received, the Obligations or part thereof intended to be satisfied thereby shall be revived and continue in full force and effect as if such payment had not been received by the Agent or Lender. If prior to any such invalidation, declaration, setting aside or requirement, this Agreement shall have been canceled or surrendered, this Agreement shall be reinstated in full force and effect, and such prior cancellation or surrender shall not diminish, discharge or otherwise affect the obligations of the Borrower in respect of the amount of the affected payment.

Section 2.7. Manner of Payment.

2.7.1. The amount of each payment under this Agreement or on the Notes shall be made in lawful money of the United States of America, in immediately available funds. Each such payment shall be made to the Agent, for the account

of each of the Lenders or for the account of the Agent, as the case may be. All payments received by the Agent from the Borrower after 10:00 a.m., Pacific Coast time, on any Business Day, or on a day which is not a Business Day, shall be deemed received on the next succeeding Business Day.

2.7.2. Each payment or prepayment of principal or interest on the Notes shall be made and applied pro rata among the Lenders according to the unpaid principal amount of the Note held by each Lender (with appropriate adjustments for the periods during which each Lender's share of such amount was loaned by or otherwise owing to such Lender); provided, however, that the Borrower shall have no liability whatsoever for the Agent's failure to so apply any such payment.

2.7.3. Following receipt by the Agent from the Borrower of any payment under this Agreement or on the Notes, the Agent shall, prior to 2:00 p.m., Pacific Coast time, of the Business Day such payment is deemed received, initiate wire transfers to the other Lenders in immediately available funds of the portions of such payment to which they are entitled under this Agreement.

Delivery of a payment by the Borrower to the Agent shall discharge all of the Borrower's obligations to the Lenders with respect to the making of the payment. In no event shall the Borrower have any liability for any failure by the Agent to pay over to the Lenders their respective shares of payments made by the Borrower.

2.7.4. Whenever any payment to be made pursuant to this Agreement or on any Note is due on a day that is not a Business Day, payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest.

2.7.5. Any payment of the principal of any LIBOR Rate Loan shall be made on a LIBOR Business Day.

2.7.6. The Agent (and each Lender with respect to its own pro rata portion of Loans) shall keep a record of Loans made by each Lender and payments of principal with respect to each Note, and such record shall be presumptive evidence of the principal amount owing under each Note.

2.7.7. Each payment of principal and interest and all other amounts payable by the Borrower under this Agreement and the other Loan Documents shall be made free and clear of, and without reduction or offset for or by reason of, any offset, counterclaims, taxes (except as permitted by Section 2.10.3.), assessments or other charges imposed by any Governmental Agency.

Section 2.8. Pro Rata Treatment. Except to the extent otherwise expressly provided herein, Revolving Loans shall be requested from the Lenders, pro rata according to their respective Revolving Commitments.

Section 2.9. Additional Fees and Costs.

2.9.1. So long as any Lender, any Assignee Lender or Participant is required to maintain reserves against LIBOR Obligations under Regulation D, the Borrower shall pay to any such Lender, Assignee Lender or Participant, with respect to each LIBOR Rate Loan, a fee (hereinafter referred to as a "LIBOR Fee") (determined as though the LIBOR Lending Office of such Lender, Assignee Lender or Participant had funded one hundred percent (100%) of such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, such LIBOR Rate Loan in the Designated Market) calculated as follows:

(i) [LIBOR Rate applicable to the LIBOR Rate Loan] divided by [(1 minus rate [expressed as a decimal] of reserve requirements under Regulation D in respect of LIBOR Obligations)] minus [LIBOR Rate applicable to the LIBOR Rate Loan], times

(ii) [average daily unpaid principal amount of such Lender's pro rata portion of or such Assignee Lender's or Participant's share in such LIBOR Rate Loan] times [number of days in the applicable Borrowing Period divided by 360].

Notification that a LIBOR Fee is payable shall be given within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder that such LIBOR Fee is payable, and may be given by telephone if communicated to a Responsible Officer or, if an attempt has been made by such Lender, Assignee Lender or Participant in good faith to communicate with any Responsible Officer and such attempt is not successful, then another responsible official of the Borrower and, in either case, confirmed within a reasonable time by letter to the Borrower, with a copy of such letter sent concurrently to the Agent. The LIBOR Fee with respect to each LIBOR Rate Loan or share therein shall be payable on the later of: (i) the last day of the applicable Borrowing Period; or (ii) five (5) calendar days after the relevant Lender, Assignee Lender or Participant notifies the Borrower of the amount due, except that (x) if notification of the amount due is not given within ninety (90) days after such LIBOR Fee becomes payable with respect to the applicable Borrowing Period, then the Borrower shall be allowed to pay such amount within thirty (30) days after the date upon which notification is given; and (y) on final payment of any Note in full, any LIBOR Fee with respect to any LIBOR Rate Loan made thereunder not earlier paid or earlier payable pursuant hereto shall be payable on the date of payment of such Note. In determining the amount of any LIBOR Fee payable pursuant to this Section, each Lender, Assignee Lender or Participant shall take into account any transitional adjustment or phase-in provisions of the reserve requirements which would reduce the reserve requirements otherwise applicable to LIBOR Obligations during the applicable Borrowing Period, and in the event of any change or variation in the reserve requirements during the applicable Borrowing Period, each Lender, Assignee Lender or Participant may use any reasonable averaging or attribution method which it deems appropriate. The determination by each Lender, Assignee Lender or Participant of the amount of any LIBOR Fee payable to it shall be conclusive in the absence of manifest error. Terms used in Regulation D shall have the same meanings when used in this Section.

2.9.2. If, after the date of this Agreement, the occurrence of any Special Circumstance shall:

(i) Subject any Lender, Assignee Lender or Participant, or the LIBOR Lending Office of any Lender, any Assignee Lender or Participant, to any tax, duty or other charge or cost, or shall change the basis of taxation of payments to any Lender, Assignee Lender or Participant of the principal of or interest on such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or the obligation of such Lender to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein (except for changes in the rate of tax on the overall net income of such Lender, such Assignee Lender or Participant, or the LIBOR Lending office of such Lender, Assignee Lender or Participant, imposed by the jurisdiction in which the principal executive office or LIBOR Lending office of such Lender, Assignee Lender or Participant is located);

(ii) Impose, modify or deem applicable any reserve (including without limitation any reserve imposed by the Board of Governors of the Federal Reserve System other than with regard to Regulation D), special deposit or similar requirements against assets of, deposits with or for the account of, or credit extended by, any Lender, any Assignee Lender or Participant or the LIBOR Lending office of any Lender, Assignee Lender or Participant; or

(iii) Impose on any Lender, Assignee Lender or Participant, the LIBOR Lending Office of any Lender, Assignee Lender or Participant, or the Designated Market any other condition affecting any Lender's pro rata portion of or any Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or the obligation of such Lender to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein, or this Agreement, or shall otherwise affect any of the same; and the result of any of the foregoing would, in the reasonable opinion of such Lender, Assignee Lender or Participant, increase the cost to such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant of permitting, making, maintaining or funding any LIBOR Rate Loan or share therein, or with respect to such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or its obligation to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein, or reduce the amount of any sum received or receivable by such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant with respect to any LIBOR Rate Loan, such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, any LIBOR Rate Loan, any Note of such Lender, or its obligation to permit LIBOR Rate Loans or the obligation of any Assignee Lender or Participant to acquire any share therein (assuming such Lender, Assignee Lender or Participant [or, in the case of a LIBOR Rate Loan, the LIBOR Lending Office of such Lender, Assignee Lender or Participant] had funded one hundred percent [100%] of such Lender's pro rata portion of, or such Assignee Lender's or Participant's share in, such LIBOR Rate Loan in the Designated Market), then, within ten (10) calendar days following notice and demand by such Lender, Assignee Lender or Participant, which demand shall be made within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder that such increased cost or reduction has been incurred, the Borrower shall pay to such Lender, Assignee Lender or Participant such additional amount or amounts (taking into account any LIBOR Fee paid to such Lender, Assignee Lender or Participant by the Borrower pursuant to Section 2.9.1.) as will compensate such Lender, Assignee Lender or Participant for such increased cost or reduction. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.2. shall notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). Notwithstanding the foregoing, if demand is not made within ninety (90) days after such increased cost or reduction is incurred, then the Borrower shall be allowed to pay such amount within thirty (30) days after the date upon which demand is made. The Borrower

hereby indemnifies each Lender, Assignee Lender or Participant against, and agrees to hold each Lender, Assignee Lender or Participant harmless from and reimburse each Lender, Assignee Lender or Participant on demand for, all costs, expenses, claims, penalties, liabilities, losses, legal fees and damages incurred or sustained by such Lender, Assignee Lender or Participant in connection with this Agreement, any share in this Agreement or any of the rights, obligations or transactions provided for or contemplated herein as a result of the occurrence of any Special Circumstance. A statement of any Lender, Assignee Lender or Participant claiming compensation under this Section 2.9.2. and setting forth the additional amount or amounts to be paid to it pursuant to this Agreement shall be conclusive in the absence of manifest error or knowing misrepresentation.

2.9.3. If, after the date of this Agreement, the occurrence of any Special Circumstance shall, in the reasonable opinion of any Lender, Assignee Lender or Participant, make it unlawful, impossible or impractical for such Lender, Assignee Lender or Participant or the LIBOR Lending Office of such Lender, Assignee Lender or Participant to permit, make, maintain or fund any

LIBOR Rate Loan or share therein, or materially restrict the authority of such Lender, Assignee Lender or Participant to purchase or sell, or to take deposits of, nonpersonal time deposits, or to determine or charge interest rates based upon the LIBOR Rate, then such Lender's obligation to make LIBOR Rate Loans shall be suspended for the duration of such illegality, impossibility or impracticality and such Lender shall immediately give notice thereof to the Borrower. Upon receipt of such notice, the outstanding principal amount of all LIBOR Rate Loans shall be automatically converted to Base Rate Loans on either: (i) the last day of the applicable Borrowing Period(s) if such Lender, Assignee Lender or Participant may lawfully continue to maintain and fund such LIBOR Rate Loans or shares therein to such day(s); or (ii) immediately if such Lender, Assignee Lender or Participant may not lawfully continue to fund and maintain such LIBOR Rate Loans to such day(s); provided that in such event the conversion shall not be subject to payment of a prepayment fee pursuant to Section 2.9.5.

2.9.4. If, with respect to any proposed LIBOR Rate Loan:

(i) the Agent reasonably determines that, by reason of circumstances affecting the Designated Market generally which are beyond the reasonable control of the Lenders, Assignee Lenders or Participants, deposits in dollars (in the applicable amounts) are not being offered to each of the Lenders, Assignee Lenders or Participants in the Designated Market for the applicable Borrowing Period; or

(ii) the Agent reasonably determines that the LIBOR Rate: (i) does not represent the effective pricing to such Lenders, Assignee Lenders or Participants for deposits in dollars in the Designated Market in the relevant amount for the applicable Borrowing Period; or (ii) will not adequately and fairly reflect the cost to such Lenders, Assignee Lenders or Participants of making the applicable LIBOR Rate Loan or share therein;

then the Agent shall forthwith give notice thereof to the Borrower, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Lenders to permit (and the Borrower's right to designate) any future LIBOR Rate Loans shall be suspended.

2.9.5. Upon payment or prepayment of any LIBOR Rate Loan, or conversion of a LIBOR Rate Loan (other than a conversion required under Section 2.9.3.), on a day other than the last day of the applicable Borrowing Period (whether involuntarily, by reason of acceleration or otherwise), the Borrower shall pay to the Agent a prepayment fee calculated as follows (and determined as though one hundred percent (100%) of the LIBOR Rate Loan had been funded in the Designated Market):

2.9.5.1. the Interest Differential with respect to such LIBOR Rate Loan (which, when received by the Agent, shall be distributed by the Agent to the Lenders in proportion to their respective Lender Commitments); plus

2.9.5.2. All out-of-pocket expenses incurred by the Lenders and reasonably attributable to such payment or prepayment (which, when received by the Agent, shall be distributed by the Agent to the Lenders in amounts corresponding to their respective out-of-pocket expenses);

provided that no prepayment fee shall be payable (and no credit or rebate shall be required) under Section 2.9.5.1. if the Interest Differential with respect to such LIBOR Rate Loan is not positive. The determination by the Agent of the amount of any prepayment fee payable under this Section 2.9.5. shall be conclusive in the absence of manifest error.

2.9.6. The Borrower hereby indemnifies each Lender, Assignee Lender and Participant against, and agrees to hold each Lender, Assignee Lender and Participant harmless from and reimburse each Lender, each Assignee Lender and Participant within ten (10) calendar days following notice and demand (which notice and demand must be made within a reasonable time after discovery by the loan officers responsible for the credit or share hereunder) for, all costs, expenses, claims, penalties, liabilities, losses, legal fees and damages (including without limitation any interest paid or that would be paid by any Lender, Assignee Lender or Participant for deposits in dollars in the Designated Market and any loss sustained or that would be sustained by any Lender, Assignee Lender or Participant in connection with the reemployment of funds) incurred or sustained, or that would be incurred or sustained, by each such Lender, Assignee Lender or Participant, as reasonably determined by each such Lender, Assignee Lender or Participant, as a result of any failure of the Borrower to consummate, or the failure of any condition required for the consummation or effectiveness of, any LIBOR Rate Loan on the date or in the amount requested by the Borrower, such indemnification to be determined as though each Lender, Assignee Lender and Participant (or, in the case of a LIBOR Rate Loan, the LIBOR Lending office of each Lender, Assignee Lender and Participant) had or would have funded one hundred percent (100%) of its pro rata portion of, or share in, such LIBOR Rate Loan in the Designated Market. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.6. shall

notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). Notwithstanding the foregoing, if demand is not made within ninety (90) days after the date upon which the event giving rise to liability of the Borrower under this Section 2.9.6. occurs, then the Borrower shall be allowed to pay the amounts demanded within thirty (30) days after the date upon which demand is made. The determination of such amount by each Lender, Assignee Lender and Participant shall be conclusive in the absence of manifest error.

2.9.7. In the event that any Lender, Assignee Lender or Participant shall have determined that the adoption of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, or any change therein or in the interpretation or application thereof, or the compliance by such Lender, Assignee Lender or Participant with any request or directive regarding capital adequacy (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction, does or shall have the effect of (i) increasing the amount of capital required to be maintained by such Lender, Assignee Lender or Participant with respect to Loans made by such Lender or shares in Loans by such Assignee Lender or Participant and/or the Lender Commitment of such Lender or obligations of such Assignee Lender or Participant to fund portions of any Lender Commitment, or (ii) increasing the cost to such Lender with respect to making any Loan made by such Lender or issuing or maintaining the Commitments of such Lender, or increasing the cost to such Assignee Lender or Participant of funding or issuing or maintaining its share in any Loan or Commitment, then the Borrower shall from time to time, within fifteen (15) days after written notice and demand from such Lender, Assignee Lender or Participant, which notice and demand shall be given and made within a reasonable time, pay to such Lender, Assignee Lender or Participant, additional amounts sufficient to compensate such Lender, Assignee Lender or Participant for the cost of such additional required capital. A certificate, evidencing the basis of such calculation in reasonable detail, as to the amount of such cost, submitted to Borrower by such Lender, Assignee Lender or Participant, shall, absent manifest error, be final, conclusive and binding for all purposes. Any Lender, Assignee Lender or Participant which makes demand on the Borrower for payment pursuant to this Section 2.9.7. shall notify the Agent of such demand promptly (and in any event within ten (10) days after making such demand). No Lender, Assignee Lender or Participant shall have the right to collect payments from the Borrower pursuant to this Section 2.9.7. unless it is the policy of such Lender, Assignee Lender or Participant, at the time of such collection, to collect similar payments from borrowers (if any) who are comparable to the Borrower, in connection with credit facilities to such borrowers which credit facilities are similar to those made available pursuant to this Agreement, where the documents governing such credit facilities establish the right of such Lender, Assignee Lender or Participant to collect such payments.

2.9.8. Each Lender, Assignee Lender and Participant shall, at the request of the Borrower, provide reasonable detail to the Borrower regarding the manner in which the amount of any payment requested by it pursuant to the provisions of Section 2.9. has been determined.

2.9.9. Any request by any Lender Party for payment of additional amounts pursuant to Sections 2.9.1. through 2.9.4. and 2.9.7. shall be accompanied by a certificate of such Lender Party setting forth the basis and amount of such request. In determining the amount of such payment, such Lender Party may use such reasonable attribution or averaging methods as it deems appropriate and practical.

Section 2.10. Taxes.

2.10.1. If the Borrower is required by Applicable Law to make any deduction or withholding in respect of any Taxes (other than Excluded Taxes) from any amount payable under any Loan Document to or for the account of any Lender Party, the Borrower shall pay to or for the account of such Lender Party, on the date such amount is payable, such additional amounts as such Lender Party reasonably determines may be necessary so that the net amounts received by it or for its account, in the aggregate, after all applicable deductions or withholdings, shall equal the amount that such Lender Party would have been entitled to receive if no deductions or withholdings were made. "Excluded Taxes" means, with respect to any payment to any Lender Party, any (a) taxes imposed on or measured by the overall net income (including a franchise tax based on net income) of such Lender Party by the United States of America or any political subdivision or taxing authority thereof or therein, and (b) any taxes imposed on or measured by the overall net income (including a franchise tax based on net income) of such Lender Party or its agent's Offices or Lending Office in respect of which the payment is made, by the jurisdiction in which it is incorporated, maintains its principal executive office or in which such agent's Lending Office is located. Whenever any such Taxes (other than Excluded Taxes) are payable by the Borrower, as promptly as possible after payment is made, the Borrower shall

send to such Lender Party a certified copy of any original official receipt received by the Borrower showing payment.

2.10.2. If any Lender Party is required by law to make any payment on account of Taxes (other than Excluded Taxes) on or in relation to any sum received or receivable by it under any Loan Document, or any liability for Taxes (other than Excluded Taxes) in respect of any such payment is imposed, levied or assessed against such Lender Party, then the Borrower shall pay when due such additional amounts as such Lender Party reasonably determines to be necessary so that the amount received by it, less any such Taxes paid, imposed, levied or assessed, including any Taxes (other than Excluded Taxes) imposed on such additional amounts, shall equal the amount that such Lender Party would have been entitled to retain in the absence of the payment, imposition, levy or assessment of such Taxes. Each Lender Party shall make reasonable efforts to minimize the amount of such Taxes and shall remit to the Borrower any refunds of Taxes paid, less the costs of such Lender Party expended in obtaining such refund.

2.10.3. Notwithstanding Section 2.10.1., if any Lender Party is not organized and existing under the laws of the United States of America or any political subdivision thereof or therein (a "Foreign Lender Party"), the Borrower shall be entitled, in respect of payments to or for the account of such Foreign Lender Party, to the extent it is required to do so by Applicable Law, to deduct or withhold (and shall not be required to make payments as otherwise required in Section 2.10.1. on account of such deductions or withholdings) Taxes imposed by the United States of America, except (a) Taxes (other than Excluded Taxes) payable as a result of any Regulatory Change (i) after the date hereof (in the case of any Foreign Lender Party hereto on the date hereof) or (ii) after the date on which such Lender Party becomes a Lender Party (in the case of

any Foreign Lender Party becoming a party hereto after the date hereof pursuant to Section 9.6.) and (b) if the Foreign Lender Party shall on the date hereof (or on a subsequent date on which such Foreign Lender Party becomes a Lender Party pursuant to Section 9.6.) be entitled to furnish, and the Borrower shall have been furnished by such Foreign Lender Party, a duly executed certificate to the effect that such Foreign Lender Party is entitled to receive all such payments without deduction or withholding of such Taxes imposed by the United States (A) pursuant to the terms of an applicable tax treaty in effect with the United States of America (in which case such certificate shall be accompanied by two executed copies of IRS Form 1001), (B) under Code Section 1441(c) (in which case such certificate shall be accompanied by two executed copies of IRS Form 4224) or (C) pursuant to an exemption certificate received from the IRS (in which case such certificate shall be accompanied by a copy of such exemption certificate) (such forms or statements being the "Prescribed Forms".) Such Foreign Lender Party shall thereafter, to the extent entitled under Applicable Law, provide to the Borrower new Prescribed Forms upon the obsolescence of any previously delivered form, in each case duly executed and completed by such Foreign Lender Party. If the Borrower shall so deduct or withhold any Taxes, it shall provide a statement to such Foreign Lender Party, setting forth the amount of such Taxes so deducted or withheld, the applicable rate and any other information or documentation that such Foreign Lender Party may reasonably request.

Section 2.11. Lending Office; Discretion of Lenders as to Manner of Funding. Each Lender may make, carry or transfer Fixed Rate Loans at, to, or for the account of an Affiliate of the Lender, provided that such Lender shall not be entitled to receive any greater amount under Section 2.10. as a result of the transfer of any such Loan than such Lender would be entitled to immediately prior thereto unless (a) such transfer occurred at a time when circumstances giving rise to the claim for such greater amount did not exist or (b) such claim would have arisen even if such transfer had not occurred. Notwithstanding any other provision of this Agreement, each Lender shall be entitled to fund and maintain its funding of all or any part of its Fixed Rate Loans in any manner it sees fit, it being understood, however, that for purposes of this Agreement all determinations hereunder shall be made as if each Lender had actually funded and maintained each Fixed Rate Loan through the purchase of deposits in the relevant interbank market having a maturity corresponding to such Loan's Borrowing Period and bearing interest at the applicable rate.

ARTICLE 3.

CONDITIONS TO LOANS

Section 3.1. Closing Conditions. The occurrence of the Closing Date shall be subject to satisfaction of the following conditions:

3.1.1. Certain Documents. The Agent shall have received the documents listed on Schedule 3.1.1, and the Lenders shall have received the Revolving Loan Notes, all of which shall be in form and substance satisfactory to the Agent and the Lenders.

3.1.2. Fees and Expenses Paid. The Borrower shall have paid all Fees and expenses then due and payable, on the Closing Date.

3.1.3. General. All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered or executed in form and substance satisfactory to the Agent and the Lenders and the Agent shall have received all such counterpart originals or certified copies thereof as Agent may request.

Section 3.2. Conditions Precedent to Loans. The obligation of the Lenders to make any Loan on any Funding Date shall be subject to the following conditions precedent:

3.2.1. Conditions Precedent. The conditions precedent set forth in Section 3.1. shall have been satisfied.

3.2.2. Notice of Borrowing. The Borrower shall have delivered to the Agent, after the time the conditions set forth in Section 3.1. shall have been satisfied or waived and otherwise in accordance with the applicable provisions of this Agreement, a Notice of Borrowing.

3.2.3. Representations and Warranties. All of the representations and warranties of the Borrower contained in the Loan Documents shall be true and correct in all material respects on and as of the Funding Date as though made on and as of that date.

3.2.4. No Default. No Default or Event of Default shall exist or result from the making of the Loan.

3.2.5. No Overdraw. There shall be no Overdraw then in existence.

3.2.6. Covenant Compliance.

The Borrower Parties shall be in full compliance with the financial covenants set forth in Section 6.4.

3.2.7. No Material Adverse Change No Material Adverse Change shall have occurred since the date of the financial statements most recently delivered to the Lenders pursuant hereto (or, in the case of any Funding Date prior to the delivery of financial statements pursuant hereto, since the date of the financial statements referred to in Section 4.5.2.).

3.2.8. Satisfaction of Conditions. Each borrowing of a Loan shall constitute a representation and warranty by the Borrower as of the Funding Date that the conditions contained in Sections 3.2.3. through 3.2.7. have been satisfied.

ARTICLE 4.

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender Parties as follows:

Section 4.1. Organization, Powers and Good Standing. Each of the Borrower Parties (a) is duly organized as a corporation, partnership or other organization, as shown as of the date hereof on Schedule 4.1, (b) is validly existing and in good standing under the laws of its jurisdiction of organization, as shown as of the date hereof on Schedule 4.1, and (c) has all requisite corporate, partnership or other organizational power and authority and the legal right to own and operate its properties, to carry on its business as heretofore conducted and as proposed to be conducted, to enter into the Loan Documents to which it is a party and to carry out the transactions contemplated thereby. Each of the Borrower Parties is duly qualified and in good standing authorized to do business in each state or other jurisdiction where the nature of its business activities conducted or proposed to be conducted or properties owned or leased requires it to be so qualified. The Borrower is a partnership for purposes of federal income taxation and for purposes of the tax laws of any state or locality in which the Borrower is subject to taxation based on its income. Guarantor is organized in conformity with the requirements for qualification as a real estate investment trust under the Code and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.

Section 4.2. Authorization, Binding Effect, No Conflict, Etc.

4.2.1. Authorization, Binding Effect, Etc. As of the Closing Date or any date thereafter, (a) the execution, delivery and performance by each Borrower Party of each Loan Document to which it is or will be a party have been duly authorized by all necessary corporate, partnership or other organizational action on the part of such Borrower Party; (b) each such Loan Document has been duly executed and delivered by such Borrower Party and (c) is the legal, valid and binding obligation of such Borrower Party, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable

principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.

4.2.2. No Conflict. The execution, delivery and performance by any Borrower Party of each Loan Document to which it is or will be a party, and the consummation of the transactions contemplated thereby, do not and will not (a) violate any provision of the charter or other organizational documents of such Borrower Party, (b) conflict with, result in a breach of, or constitute (or, with the giving of notice or lapse of time or both, would constitute) a default under, or require the approval or consent of any Person pursuant to, any material Contractual Obligation of any Borrower Party, or violate any Applicable Law binding on any Borrower Party, except for consents that have been obtained and are in full force and effect, or (c) result in the creation or imposition of any Lien upon any asset of the Borrower.

4.2.3. Partnership Units; General Partner. Guarantor owns 19,595,122 Partnership Units (as defined in partnership agreement of the Borrower), free and clear of any Liens. All partnership units owned by Guarantor were offered and sold in compliance with all Applicable Law (including, without limitation, federal and state securities laws). Except as set forth on Schedule 4.2.3, there are no outstanding securities convertible into or exchangeable for partnership units of the Borrower, or options, warrants or rights to purchase any such partnership units, or commitments of any kind for the issuance of additional partnership units or any such convertible or exchangeable securities or options, warrants or rights to purchase such partnership units. Guarantor is the sole general partner of the Borrower. The Shareholder Agreement is in full force and effect and has not been amended or supplemented in any respect. No party to the Shareholder Agreement is in default under such agreement, nor has any event occurred which, but for the passing of time or the giving of notice, would constitute a default under such Agreement. The "PSA Registration Date" as defined in the Shareholder Agreement is March 17, 2001.

4.2.4. Governmental Approvals. No Governmental Approval is or will be required in connection with the execution, delivery and performance by any Borrower Party of any Loan Document to which it is party or the transactions contemplated thereby. Each Borrower Party and each of the other Consolidated Entities possesses all Government Approvals, in full force and effect, that are necessary for the ownership, maintenance and operation of its properties and conduct of its business as now conducted and proposed to be conducted and the absence of which would not result in a Material Adverse Effect on any Borrower Party, and is not in violation thereof.

Section 4.3. Guarantor. All of the outstanding shares of Capital Stock of the Guarantor have been duly authorized and validly issued and are fully paid and nonassessable. Except as disclosed on Schedule 4.3, as amended from time to time, there are not outstanding any securities convertible into or exchangeable for shares of Capital Stock of the Guarantor, or any options, warrants or other rights to purchase any such Capital Stock, or any commitments of any kind for the issuance of additional shares of such Capital Stock or any such convertible or exchangeable securities or options, warrants or rights to purchase such Capital Stock. Except for directors qualifying shares or similar arrangements or as disclosed on Schedule 4.3, neither the Borrower nor Guarantor is a party to any agreement with respect to the issuance, voting or sale of issued or unissued shares of Capital Stock of the Guarantor.

Section 4.4. Subsidiaries. The Borrower has no Subsidiaries except as set forth in Schedule 4.4.

Section 4.5. Financial Information. 4.5.1. The consolidated balance sheets of the Borrower and Guarantor as of December 31, 1996 and December 31, 1997 and the consolidated statements of income, retained earnings and cash flow of the Borrower and Guarantor for the Fiscal Years then ended, certified by the Borrower's independent certified public accountants, copies of which have been delivered to the Lender Parties, were prepared in accordance with GAAP consistently applied and fairly present the consolidated financial position of the Borrower and its Consolidated Subsidiaries, as of the respective dates thereof and the results of operations and cash flow of the Guarantor, the Borrower and its Consolidated Subsidiaries for the periods then ended. No Borrower Party nor any Consolidated Subsidiary on such dates had any material Contingent Obligations, liabilities for Taxes or long-term leases, forward or long-term commitments or unrealized losses from any unfavorable commitments that are not reflected in the foregoing statements or in the notes thereto and which are Material.

4.5.2. The unaudited consolidated balance sheet of the Guarantor as at September 30, 1997 and March 31, 1998 and related statements of income, retained earnings and cash flow for the period then ended, certified by the Chief Financial Officer of the Guarantor, a copy of which has been delivered to the Lender, were prepared in accordance with GAAP consistently applied (except to the extent noted therein) and fairly present the consolidated financial position of the Guarantor, the Borrower and the Consolidated Entities as of such date and

the results of operations and cash flow for the period covered thereby, subject to normal year-end audit adjustments. No Borrower Party nor any Consolidated Entity had on such date any material Contingent Obligations, liabilities for Taxes or long-term leases, unusual forward or long-term commitments or unrealized losses from any unfavorable commitments which are not reflected in the foregoing statements or in the notes thereto and which are Material.

4.5.3. Except as otherwise disclosed in writing to and approved in writing by the Agent prior to the date hereof, with respect to the Projections: (a) all assumptions made therein were, in the Borrower Parties' best business judgment, reasonable under the circumstances existing at the time of preparation of the Projections, and (b) the forecasts or projections contained therein were, in the Borrower Parties' best business judgment, reasonably based on the assumptions contained therein.

Section 4.6. No Material Adverse Changes. Since March 31, 1998 there has been no Material Adverse Change.

Section 4.7. Litigation. Except as disclosed in Schedule 4.7, there are no actions, suits or proceedings pending or, to the best knowledge of the Borrower, threatened against or affecting any Borrower Party or any of their respective properties before any Governmental Authority (a) in which there is a reasonable possibility of an adverse determination that could result in a Material liability or have a Material Adverse Effect or (b) that in any manner draws into question the validity, legality or enforceability of any Loan Document or any transaction contemplated thereby.

Section 4.8. Agreements; Applicable Law. No Borrower Party is in violation of any Applicable Law, or in default under any of its Contractual Obligations, except where such violation or default could not individually or in the aggregate have a Material Adverse Effect. No Borrower Party is a party to or bound by any unduly burdensome Contractual Obligation that, individually or in the aggregate, has a Material Adverse Effect.

Section 4.9. Taxes. All income tax returns of the Borrower Parties have been filed with the appropriate Governmental Authority through the fiscal year ended December 31, 1997. All United States Federal income tax returns and all other material tax returns required to be filed by the Borrower Parties have been filed and all Taxes due pursuant to such returns have been paid, except such Taxes, if any, as are being contested in good faith and as to which adequate reserves have been established in accordance with GAAP. To the best knowledge of the Borrower, there have not been asserted or proposed to be asserted any Tax deficiency against any Borrower Party that would be Material that is not reserved against on the financial books of the Borrower and its Subsidiaries. No Borrower Party is a party to or obligated under any Tax sharing or similar agreement.

Section 4.10. Governmental Regulation. No Borrower Party is (a) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or a company controlled by such a company, or (b) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act or to any Federal or state, statute or regulation limiting its ability to incur Debt for money borrowed (other than the Margin Regulations).

Section 4.11. Margin Regulations. No Borrower Party is engaged principally, or as one of its important activities, in the business of extending credit for the purposes of purchasing or carrying Margin Stock. The value of all Margin Stock held by the Borrower Parties constitutes less than 25% of the value, as determined in accordance with the Margin Regulations, of all assets of the Borrower Parties. The execution, delivery and performance of the Loan Documents by the Borrower Parties will not violate the Margin Regulations.

Section 4.12. Employees. As of the date hereof, the Borrower has no employees. The Borrower has not had, on any date prior to the date hereof, any employees. As of the date hereof, the Borrower has no ERISA Affiliates.

Section 4.13. Title to Property. Each Borrower Party has good fee title to, or valid and existing leasehold interests in, all of its Real Property reflected in its books and records as being owned or leased by it. Each of the Real Properties listed in Schedule 1.1C is an Unencumbered Asset.

Section 4.14. Intellectual Property, Etc. Each Borrower Party owns or holds valid licenses in and to all Trademarks, copyrights, patents, trade secrets and other intellectual property rights that are material to the conduct of its business as heretofore operated and as proposed to be conducted. No Borrower Party has infringed, or been charged or, to the best knowledge of the Borrower, threatened to be charged with any infringement of, any unexpired Trademark, copyright, patent, trade secret or other intellectual property right of any Person where such infringement could result in a Material Adverse Effect on any of the Borrower Parties.

Section 4.15. Environmental Condition.

4.15.1. Except as disclosed in Schedule 4.15.1, to the best knowledge of the Borrower, each Real Property in the Unencumbered Pool is free from contamination from any Hazardous Materials. To the best knowledge of the Borrower, no polychlorinated biphenyls (PCBs) (including PCBs contained in dialectic fluid in any transformers, capacitors, ballasts or other equipment) stored, used or located on, or disposed of at any Real Property in the Unencumbered Pool in violation of Applicable Law and no asbestos is stored, used or located on, or has been disposed of at, any Real Property in the Unencumbered Pool, other than asbestos that does not pose a hazard to human health, which is not required to be remediated under Applicable Law, and which is subject to an operations and maintenance plan of the Borrower which restricts and regulates the disturbance thereof. Neither the Borrower Parties nor, to the best knowledge of the Borrower, any prior owner or other user of any Real Property in the Unencumbered Pool has caused or suffered any Environmental Damages.

4.15.2. Except as disclosed in Schedule 4.15.2, neither the Borrower Parties nor, to the best knowledge of the Borrower, any prior owner or other user of any Real Property in the Unencumbered Pool has received notice of any actual or alleged violation of Environmental Requirements, or notice of any actual or alleged liability for Environmental Damages in connection with any Real Property in the Unencumbered Pool. There exists no order, judgment or decree, and there is not pending or, to the best knowledge of the Borrower, threatened, any action, suit, proceeding or investigation relating to any actual or alleged liability arising out of the presence or suspected presence of Hazardous Material, any actual or alleged violation of Environmental Requirements or any actual or alleged liability for Environmental Damages in connection with any Real Property in the Unencumbered Pool or the business or operations of any of the Borrower Parties nor, to the best knowledge of the Borrower, does there exist any basis for such action, suit, proceeding or investigation being instituted or filed.

4.15.3. There is no violation of Environmental Requirements with respect to any Real Property owned by any Borrower Party which Real Property is not in the Unencumbered Pool, which violation has a Material Adverse Effect on the Borrower. The Borrower is not obligated to pay Environmental Damages with respect to any Real Property not in the Unencumbered Pool which payment has a Material Adverse Effect on the Borrower.

4.15.4. None of the Real Property in the Unencumbered Pool has been designated as Border Zone Property under the provisions of California Health and Safety Code, Sections 25220 et seq. or any comparable statute and there has been no occurrence or condition on any real property adjoining or in the vicinity of any of the Real Property in the Unencumbered Pool that could cause any of such Real Property or any part thereof to be designated as Border Zone Property.

Section 4.16. Labor Matters. There are no material strikes or other material labor disputes or material grievances pending or, to the best knowledge of the Borrower, threatened against any Borrower Party. Except as set forth in Schedule 4.16, there are no collective bargaining agreements to which any Borrower Party is a party. Each Borrower Party has complied in all material respects with the requirements of the Worker Adjustment and Restraining Notification Act, 29 U.S.C. Section 2101 et seq. (the "WARN Act"). No claim under the WARN Act is pending or, to the best knowledge of the Borrower, threatened against any Borrower Party nor is there any reasonable basis to anticipate any such claim.

Section 4.17. Disclosure. All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Borrower Party or any Affiliate thereof with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement was true and correct in all material respects as of the date of such document, certificate or statement. There is no fact known to the Borrower (other than matters of a general economic nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates or statements. To the best of the Borrower's knowledge, all factual information in any document,

certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Person (other than a Borrower Party or an Affiliate of any Borrower Party) with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement was true and correct in all material respects as of the date of such document, instrument or certificate and the Borrower has no actual knowledge, without duty of investigation or inquiry, of any materially untrue or misleading statement or omission therein.

ARTICLE 5.

AFFIRMATIVE COVENANTS OF THE BORROWER

So long as any portion of the Commitment is in effect or any Obligations remain unpaid or have not been performed in full, the Borrower covenants with the Lender Parties as follows:

Section 5.1. Financial Statements and Other Reports. The Borrower shall deliver to the Agent:

5.1.1. As soon as practicable and in any event within ninety-five (95) days after the end of each Fiscal Year, (i) the consolidated balance sheet of the Borrower Parties as of the end of such year and the related consolidated statements of income, stockholders' equity and cash flow of the Borrower Parties, for such Fiscal Year, setting forth in each case in comparative form the consolidated figures for the previous Fiscal Year, all in reasonable detail and (ii) the consolidated balance sheet of the Borrower Parties as of the end of such year and the related consolidated statements of income, stockholder's equity and cash flow for such fiscal years, all in reasonable detail and, in each case, certified by the Guarantor's chief financial officer as fairly presenting the consolidated financial condition of the Borrower Parties as of the dates indicated and the consolidated results of operations and cash flows for the periods indicated. With respect to the financial statements of Borrower Parties, such statements shall be accompanied by an unqualified report thereon of Ernst & Young, LLP or other independent certified public accountants of recognized national standing selected by the Borrower Parties and reasonably satisfactory to the Agent, which report shall state that such statements fairly present the financial position of the Borrower Parties as of the date indicated and their results of operations and cash flows for the periods indicated in conformity with GAAP (except as otherwise stated therein) and that the examination by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards.

5.1.2. As soon as practicable and in any event within fifty (50) days after the end of each Fiscal Quarter a consolidated balance sheet of the Borrower Parties as of the end of such quarter and the related consolidated statements of income, stockholders' equity and cash flow for such quarter and the portion of the Fiscal Year ended at the end of such quarter, setting forth in each case in comparative form the consolidated figures for the corresponding periods of the prior Fiscal Year, all in reasonable detail and certified by the Guarantor's chief financial officer as fairly presenting the consolidated financial condition of the Borrower Parties as of the dates indicated and the consolidated results of operations and cash flows for the periods indicated, subject to normal year-end adjustments and made in accordance with GAAP.

5.1.3. Within fifty (50) days after the end of each Fiscal Quarter, a certificate of the senior vice-president, corporate finance, chief financial officer, controller or treasurer of the Guarantor substantially in the form of Exhibit F (a "Compliance Certificate"), (a) duly completed setting forth the calculations required to establish Availability and compliance with Section 6.4. on the date of such financial statements and (b) stating that, to the best knowledge of such officer, after making such inquiry and other investigation as such officer deems reasonable under the circumstances, no Default exists or, if a Default does exist, the nature thereof and the action that the Borrower proposes to take with respect thereto;

5.1.4. Within fifty (50) days after the end of each Fiscal Quarter, a report showing Available Financing as of the end of such Fiscal Quarter.

5.1.5. An Unencumbered Pool report which includes for each Unencumbered Asset, the Property NOI for such Fiscal Quarter with reasonable detail as to all Property Expenses, Capital Expenditures incurred, and average Occupancy Rate during the Fiscal Quarter. This portion of the report shall be submitted to the Agent within fifty (50) days after the end of each Fiscal Quarter.

5.1.6. Within three (3) Business Days after the Borrower becomes aware of the occurrence of any Default or Event of Default, a certificate of a Senior Officer of the Borrower setting forth the details thereof and the action that the Borrower is taking or proposes to take with respect thereto;

5.1.7. Promptly upon their becoming available and in any event within five (5) Business Days after submission to the SEC, copies of all financial statements, reports (including forms 10Q and 10K), notices and proxy statements sent or made available by the Guarantor to its security holders, all registration statements (other than the exhibits thereto) and annual, quarterly or monthly reports, if any, filed by the Guarantor with the SEC and all press releases by the Borrower or the Guarantor concerning material developments in the business of the Borrower or the Guarantor;

5.1.8. At any time after the Borrower has any employees and is required to comply with ERISA or has any ERISA Affiliates which are required to comply with ERISA, within three (3) Business Days after any of the Borrower Parties becomes aware of the occurrence of (a) any Reportable Event in connection with any Plan, (b) any Prohibited Transaction in connection with any Plan (or any trust created thereunder), or (c) any assertion of withdrawal

liability of any Multiemployer Plan, (d) any partial or complete withdrawal by the Borrower or any ERISA Affiliate from any Multiemployer Plan under Title IV of ERISA (or assertion thereof), (e) any cessation of operations by the Borrower or any ERISA Affiliate at a facility in the circumstances described in Section 4068(f) of ERISA, (f) the withdrawal by the Borrower or any ERISA Affiliate from

a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA, (g) the failure by the Borrower or any ERISA Affiliate to make a payment to a Plan required under Section 302(f)(1) of ERISA, (h) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA, or (i) the PBGC's intent to terminate any Plan administered or maintained by the Borrower or any ERISA Affiliate or to have a trustee appointed to administer any such Plan, a written notice specifying the nature thereof, and, when known, any action taken or threatened by the Internal Revenue Service or the PBGC with respect thereto;

5.1.9. Within three (3) Business Days after the Borrower obtains knowledge thereof, notice of all litigation or proceedings commenced or threatened affecting any Borrower Party (a) that involves alleged liability in excess of $2,500,000 (in the aggregate) and which is not covered by insurance (or, if purportedly covered by insurance, then as to which the insurer has reserved its rights with respect to such coverage), (b) in which injunctive or similar relief is sought that, if obtained, could have a Material Adverse Effect or (c) that questions the validity or enforceability of any Loan Document;

5.1.10. Within three (3) Business Days after the receipt thereof, a copy of any notice, summons, citation or written communication concerning any actual, alleged, suspected or threatened violation of Environmental Requirements, or liability of any Borrower Party for Environmental Damages, where the amount in controversy is equal to or greater than Two Million Five Hundred Thousand Dollars ($2,500,000.00);

5.1.11. Within five (5) Business Days after the availability thereof, copies of all amendments to the charter, bylaws or other organizational documents of the Borrower or the Guarantor;

5.1.12. Each Borrower Party shall deliver or cause to be delivered to the Agent, as the Agent may from time to time request, schedules identifying all insurance then in effect and certificates evidencing such insurance;

5.1.13. Promptly upon request of the Agent, copies of each Schedule B (Actuarial Information) to the most recent annual report (Form 5500 Series) with respect to each Plan (if any);

5.1.14. From time to time such additional information regarding the Borrower Parties, the Guarantor, the Consolidated Entities and the Unconsolidated Joint Ventures or their respective businesses, assets, liabilities, prospects, results of operation or financial condition as the Agent (or any Lender through the Agent) may reasonably request, including without limitation evidence regarding the Lien status of any Real Property in the Unencumbered Pool.

Section 5.2. Records and Inspection. The Borrower Parties shall maintain adequate books, records and accounts as may be required or necessary to permit the preparation of consolidated financial statements in accordance with sound business practices and GAAP. The Borrower Parties shall permit such Persons as the Agent may designate, after reasonable advance notice, during normal business hours, and as often as may be requested, to (a) visit and inspect any of the Real Properties of any Borrower Party or the offices of any Borrower Party, (b) inspect and copy any Borrower Party's books and records, and (c) discuss with its officers and employees and its independent accountants, its business, assets, liabilities, prospects, results of operation or financial condition; provided, however, that (i) representatives of the Borrower Parties may be present during all such inspections and discussions, (ii) each person designated by the Agent shall take reasonable steps to minimize disruption to the operations of such Borrower Party caused by such inspection; and (iii) nothing contained herein shall require any Borrower Party to permit any Lender to examine or otherwise have access to any matter that is protected from disclosure by the attorney-client privilege or the doctrine of attorney work product.

Section 5.3. Corporate Existence, Etc. Except as permitted pursuant to Section 6.9., each Borrower Party shall at all times preserve and keep in full force and effect its corporate existence and all Material rights and franchises.

Section 5.4. Payment of Taxes. Each Borrower Party shall pay and discharge all Taxes imposed upon it or any of its properties or in respect of any of its franchises, business, income or property before any penalty shall be incurred with respect to such Taxes, provided, however, that, unless and until foreclosure, distraint, levy, sale or similar proceedings shall have commenced,

a Borrower Party need not pay or discharge any such Tax so long as the validity or amount thereof is being contested in good faith and by appropriate proceedings and so long as any reserves or other appropriate provisions as may be required by GAAP shall have been made therefor.

Section 5.5. Maintenance of Properties. Each Borrower Party shall maintain or cause to be maintained in good repair, working order and condition (ordinary wear and tear excepted), all Real Properties and other assets useful or necessary to its business, and from time to time each Borrower Party shall make or cause to be made all appropriate repairs, renewals and replacements thereto; provided, however that the failure to maintain a particular item of property (other than an improved Real Property) that is not of significant value to such Borrower Party or which is obsolete shall not constitute a violation of this covenant.

Section 5.6. Maintenance of Insurance. Each Borrower Party shall maintain in full force and effect with insurers duly licensed in the applicable jurisdictions insurance of such types and in such amounts as are customarily carried in their respective lines of business, including, but not limited to, fire, hazard, public liability, property damage, products liability and workers' compensation insurance.

Section 5.7. Conduct of Business. No Borrower Party shall engage in any business other than the businesses in which the Borrower and the Guarantor are engaged on the date hereof or any businesses substantially similar or related thereto. Each Borrower Party shall conduct its business in compliance in all material respects with all Applicable Law and all its Contractual Obligations.

Section 5.8. Further Assurances. At any time and from time to time, upon the request of the Agent, each Borrower Party shall execute and deliver such further documents and do such other acts and things as the Agent may reasonably request in order to effect fully the purposes of the Loan Documents and any other agreement contemplated thereby and to provide for payment and performance of the Obligations in accordance with the terms of the Loan Documents.

Section 5.9. Future Information. All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party after the date hereof and prepared by any Borrower Party or any Affiliate thereof with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement will be true and correct in all material respects as of the date of such document, certificate or statement. Each fact known to the Borrower (other than matters of a general economic nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates or statements will be disclosed promptly to the Agent in writing promptly after a Responsible Officer learns thereof. All factual information in any document, certificate or written statement furnished to the Lender Parties by any Borrower Party and prepared by any Person (other than a Borrower Party or an Affiliate of any Borrower Party) with respect to the business, assets, prospects, results of operation or financial condition of any Borrower Party for use in connection with the transactions contemplated by this Agreement will, to the Borrower's actual knowledge, without duty of investigation or inquiry, be true and correct in all material respects as of the date of such document, instrument or certificate except as disclosed by the Borrower to the Lender Parties in writing concurrently with the delivery to the Lender Parties of such document, instrument or certificate; provided, however, that Borrower makes no covenant regarding the truth or accuracy of any third party research reports regarding the business and operations of the Guarantor which may hereafter be delivered to the Lender Parties.

Section 5.10. Shareholder Agreement. No Borrower Party shall modify, amend, terminate, breach or otherwise violate any of the provisions of the Shareholder Agreement in any material respect without the prior written consent of the Lenders, which may be withheld in their sole discretion. Borrower shall cause PSI to comply with all provisions of the Shareholder Agreement.

Section 5.11. Limitation on Guarantor. The sole Investments of Guarantor shall at all times be (i) its general partnership interest in Borrower (ii) any wholly-owned Subsidiary of the Guarantor which Subsidiary's sole business is the construction, ownership and operation of Office Park Property owned by the Borrower and its Subsidiaries, (iii) Cash, Cash Equivalents and institutional money market funds organized under the laws of the United States of America or any state thereof that invest solely in Cash Equivalents, and (iv) loans to employees of the Guarantor for the purpose of purchasing the Capital Stock of the Guarantor pursuant to a program therefor adopted by the Guarantor. The Guarantor shall not at any time incur any Liabilities other than (i) Liabilities for which the Guarantor is jointly and severally liable due to its status as the general partner in the Borrower, (ii) Liabilities for overhead, payroll and employee-related expenses, (iii) Liabilities relating to any guaranty or suretyship executed by the Guarantor of the Borrower's obligations;

and (iv) Liabilities relating to obligations of wholly-owned Subsidiaries of the Guarantor not to exceed at any time Two Million Dollars ($2,000,000) in the aggregate (including Contingent Obligations). At no time shall the Guarantor have any Debt for borrowed money other than with respect to transactions among Borrower Parties. Guarantor shall not hold or acquire an interest in any Real Property other than Office Park Properties.

Section 5.12. Environmental Matters.

5.12.1. Promptly upon discovery of any violation or alleged violation of Environmental Requirements with respect to any Real Property of any Borrower Party, the Borrower shall attempt in good faith as soon as practicable to determine the cost to remediate such violation of Environmental Requirements and the Borrower shall thereupon notify the Agent in writing of the Borrower's reasonable, good faith estimate of the cost to remediate such violation or alleged violation. Such good faith estimate of the cost of remediation (exclusive of costs and expenses of investigation), as revised from time to time pursuant hereto, shall be deemed to be the "Liquidated Cost" of such violation or alleged violation of Environmental Requirements. From time to time thereafter, not less than fifty (50) days after the end of each Fiscal Quarter, the Borrower shall review and update all Liquidated Costs and shall deliver a written report to the Agent setting forth, in reasonable detail, each Liquidated Cost in excess of One Million Dollars ($1,000,000), the basis for the determination of the Liquidated Cost, and the Borrower's plans with respect to such violation or alleged violation of Environmental Requirements.

5.12.2. The Borrower Parties shall at all times comply in all material respects with all Environmental Requirements.

Section 5.13. Listing and Organizational Requirements. The Borrower shall cause the Guarantor to continue to list its Capital Stock on the AMEX or any other national stock exchange and continue to qualify as a real estate investment trust under the Code, and the Borrower will do or cause to be done all things necessary to cause it to be treated as a partnership for purposes of federal income taxation and the tax laws of any state or locality in which the Borrower is subject to taxation based on its income.

Section 5.14. Year 2000. Borrower shall ensure that the following are Year 2000 Compliant in a timely manner, but in no event later than December 31, 1999: (a) the Office Park Properties and improvements located thereon; (b) Borrower itself; and (c) Guarantor any other major entities in which Borrower or Guarantor hold a controlling interest. Borrower shall further make reasonable inquiries of, and request reasonable validation that, each of the following are similarly Year 2000 Compliant: (x) all major tenants or other entities from which Borrower or Guarantor receives payments; and (y) all major contractors, suppliers, service providers and vendors of Borrower or Guarantor. As used in this paragraph, "major" shall mean entities the failure of which to be Year 2000 Compliant would have a material adverse economic impact upon Borrower or Guarantor. The term "Year 2000 Compliant" shall mean, in regard to any property or entity, that all software, hardware, equipment, goods or systems utilized by or material to the physical operations, business operations, or financial reporting of such property or entity (collectively the "systems") will properly perform date sensitive functions before, during and after the year 2000. In furtherance of this covenant, Borrower shall, in addition to any other necessary actions perform a comprehensive review and assessment of all systems of Borrower, Guarantor, the Office Park Properties and the improvements located thereon, and shall adopt a detailed plan, with itemized budget, for the testing, remediation, and monitoring of such systems. Borrower shall, within thirty business days of Lender's written request, provide to Lender such certifications or other evidence of Borrower's compliance with the terms of this paragraph as Lender may from time to time reasonably require.

Section 5.15. Change of Management. The Borrower Parties shall cause Ronald Havner, Jr. to be actively involved in the management of Borrower; provided that if Mr. Havner ceases his active involvement in management for any reason, within one hundred and twenty (120) calendar days after the date of the commencement of his lack of active involvement, Borrower shall have retained a replacement that is reasonably satisfactory to the Majority Lenders.

ARTICLE 6.

NEGATIVE COVENANTS OF THE BORROWER PARTIES

So long as any portion of the Commitment is in effect or any Obligations remain unpaid or have not been performed in full:

Section 6.1. Payment of Obligations.

Each Borrower Party shall pay within ninety (90) days of its receipt of a bill therefor all Accounts Payable, except that a Borrower Party shall not be required, under this Section 6.1., to pay (a) any Account Payable (or portion thereof) that is being actively contested in good faith by appropriate proceedings; or (b) any Account Payable that is less than Two Hundred Fifty Thousand Dollars ($250,000.00) so long as the aggregate amount of Accounts Payable of all Borrower Parties with respect to which a Borrower Party has received a bill more than ninety (90) days prior to the date of calculation does not exceed Seven Hundred Fifty Thousand Dollars ($750,000.00). For purposes of this Section 6.1., "Accounts Payable" means all amounts owed by the Borrower Parties from time to time, arising out of the conduct of their respective businesses, including utility charges, amounts owing under open purchase orders, service contracts or equipment leases, and other amounts owing with respect to maintenance, clean-up, landscaping and other services performed in connection with the operation of the Borrower Parties' respective businesses. The term "Accounts Payable" shall not include indebtedness for borrowed money, amounts owing with respect to federal, state or local taxes, insurance premiums or amounts a Borrower Party is required to contribute to any Borrower Plan.

Section 6.2. Investments. No Borrower Party shall directly or indirectly, make or own any investment, except:

6.2.1. Cash, Cash Equivalents or institutional money market funds organized under the laws of the United States of America or any state thereof that invest solely in Cash Equivalents;

6.2.2. (a) Trade credit extended on usual and customary terms in the ordinary course of business, and (b) advances to employees for moving, relocation and travel expenses, drawing accounts and similar expenditures in the ordinary course of business;

6.2.3. Existing Office Park Property or land upon which the Borrower plans to develop commercial office, light industrial or retail projects;

6.2.4. Subsidiaries engaged in the construction or operation of Office Park Property;

6.2.5. Any material acquisition, merger, formation, or investment in a Joint Venture, asset purchase, or any transfer of assets permitted pursuant to Section 6.9.; or

6.2.6. Subject to the limits established pursuant to Sections 6.4.8, 6.4.9, 6.4.10, 6.4.11, 6.4.12 and 6.4.13, Debt payable to a Borrower Party which is secured by mortgages or deeds of trust on real estate, marketable equity securities, and unconsolidated Joint Ventures.

Section 6.3. Asset Dispositions. Subject to Section 6.5., the Borrower may sell, lease or otherwise dispose of assets in the normal course of its business and so long as such dispositions do not result in a violation of any other provision of this Agreement.

Section 6.4. Financial Covenants.

6.4.1. Ratio of Total Liabilities to Gross Asset Value. The ratio of Total Liabilities to Gross Asset Value shall not at any time exceed 0.50:1.

6.4.2. Ratio of Unencumbered Asset Value to Outstanding Unsecured Liabilities. The ratio of Unencumbered Asset Value to Outstanding Unsecured Liabilities shall at all times be not less than 2.0:1.0.

6.4.3. Minimum Tangible Net Worth. Tangible Net Worth of Borrower and Guarantor shall not be less than, at any time: (i) $620,000,000 plus (ii) Net Income, if any, less (iii) Restricted Payments plus (iv) ninety percent (90%) of Equity Offering Net Proceeds.

6.4.4. Secured Debt to Gross Asset Value. The ratio of Secured Debt to Gross Asset Value shall not be greater than 0.30:1.0.

6.4.5. Interest Coverage. At any time, the ratio of EBITDA to Interest Expense for the most recently completed Fiscal Quarter shall not be less than 2.25:1.0.

6.4.6. Fixed Charge Coverage. At any time, the ratio of EBITDA to Fixed Charges for the most recently completed Fiscal Quarter shall not be less than 2.0:1.0.

6.4.7. Distributions. Restricted Payments paid by the Borrower during the four immediately preceding Fiscal Quarters shall not at any time exceed ninety-five percent (95%) of Funds from Operations, calculated for such four Fiscal Quarters.

6.4.8. Land Holdings. The aggregate value of Land Holdings of Borrower and Guarantor (valued at the lesser of acquisition cost or market value) shall not at any time exceed ten percent (10%) of Gross Asset Value.

6.4.9. Securities Holdings. The aggregate value of Capital Stock of any Person other than in Joint Ventures which is owned by Borrower Parties (valued at the lesser of acquisition cost or market value) shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

6.4.10. Mortgage Holdings. The aggregate value of any Debt payable to Borrower Parties shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

6.4.11. Joint Ventures. The aggregate value of Capital Stock of any Joint Venture which is owned by Borrower Parties (valued at the lesser of acquisition cost or market value) shall not at any time exceed fifteen percent (15%) of Gross Asset Value.

6.4.12. Construction-In-Progress. The aggregate rentable square footage of Construction-in-Progress that is not subject to signed leases between the applicable Borrower Party and the tenant for such space shall not at any time exceed ten percent (10%) of the aggregate rentable square footage of the Real Property. In addition, the aggregate rentable square footage of all Construction-in-Progress shall not at any time exceed twenty percent (20%) of the aggregate rentable square footage of the Real Property.

6.4.13. Other Assets. The aggregate value of Other Assets owned by Borrower Parties (valued at the lesser of Acquisition Cost or Market Value) shall not at any time exceed forty percent (40%) of Gross Asset Value.

6.4.14. Unsecured Interest Expense Coverage. At any time, the ratio of Unencumbered Net Operating Income to Unsecured Interest Expense shall not be less than 2.00:1.0.

Section 6.5. Restriction on Fundamental Changes. Except as permitted pursuant to Section 6.9., no Borrower Party shall directly or indirectly, enter into any merger, consolidation, reorganization or recapitalization, reclassify its Capital Stock, liquidate, wind up or dissolve or sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its or their business or assets, whether now owned or hereafter acquired.

Section 6.6. Transactions with Affiliates. The Borrower Parties shall not directly or indirectly, enter into any transaction (including the transfer or lease of any property or the rendering of any service) with any Affiliate of the Borrower unless (a) such transaction is in the ordinary course of business of the party thereto, and (b) such transaction is on fair and reasonable terms no less favorable to such Borrower Party than those terms that might be obtained at the time in a comparable arm's length transaction with a Person who is not an Affiliate of the Borrower or, if such transaction is not one that by its nature could be obtained from such other Person, is on fair and reasonable terms and was negotiated in good faith and (c) if such transaction involves a transfer or lease of property in with a value in excess of $5,000,000.00 or the rendering of services resulting in gross revenues in excess of $5,000,000.00, the Borrower shall have delivered to the Agent a certified resolution of the Board of Directors of general partner of the Borrower determining that the standards set forth in clause (c) above are satisfied with respect to such transaction, provided that this Section 6.6. shall not restrict (i) dividends, distributions and other payments and transfers on account of the Capital Stock of the Borrower or the Guarantor, (ii) payments pursuant to the terms of any Contractual Obligations in effect on the date hereof listed on Schedule 6.6, or (iii) any transaction in the ordinary course of business between the Borrower and any other Borrower Party. Notwithstanding the foregoing, in no event shall any Borrower Party sell (including within the meaning of a sale, any grant of a purchase option or any lease of fifteen (15) or more years, including renewal options) any property or other assets of the Borrower or any Affiliate to the Borrower or any Affiliate, unless the terms and conditions of such sale have been approved by the independent directors of Guarantor, as described in its By-Laws.

Section 6.7. ERISA. In the event that the Borrower ever has any employees, the Borrower will not, and will not permit any ERISA Affiliate to: (a) engage in any Prohibited Transaction or engage in any conduct or commit any act or suffer to exist any condition that could give rise to any excise tax, penalty, interest or liability, (b) fail to make any payments to any Multiemployer Plan that the Borrower or any of its ERISA Affiliates may be

required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto; or (c) voluntarily terminate or amend any one or more of their Plans, if such termination would result in the imposition of Liens on the Borrower or any ERISA Affiliate.

Section 6.8. Amendments of Charter Documents. None of the Borrower Parties shall amend its charter, bylaws, partnership agreement or other organizational documents in any material respect, without in each case obtaining the prior written consent of the Majority Lenders, which consent will not be unreasonably withheld, conditioned or delayed, except to increase the percentage of shares that may be owned by any person and to reflect issuances of securities.

Section 6.9. Certain Obligations. No Borrower Party shall engage in any material acquisition, merger, formation, investment in any partnership/joint venture/Subsidiary, asset acquisition (other than of Office Park Property) or transfer of assets without first giving notice thereof to Agent and certifying compliance with all covenants of this Agreement after giving effect to the proposed transaction. For purposes of this Section 6.9., "material" is defined as any transaction in which the obligation of a Borrower Party equals or exceeds ten percent (10%) of Gross Asset Value. With respect to any proposed acquisition of Office Park Property, if the acquisition price of such Office Park Property is greater than ten percent (10%) of Gross Asset Value, Borrower must first give notice thereof to Agent and certify compliance with all covenants of this Agreement after giving effect to the proposed transaction.

Section 6.10. Distributions. Unless waived by the Majority Lenders, no Borrower Party shall make any Restricted Payments after the occurrence of and during the continuation of an Event of Default under Section 7.1.1. and no Borrower Party shall make any Restricted Payment in excess of that required to maintain Guarantor's status as a REIT after the occurrence of and during the continuation of a Material non-monetary Event of Default under Section 7.1.

ARTICLE 7.

EVENTS OF DEFAULT

Section 7.1. Events of Default. The occurrence of any one or more of the following events, acts or occurrences shall constitute an event of default (each an "Event of Default"):

7.1.1. Failure to Make Payments. The Borrower (a) shall fail to pay as and when due (whether at stated maturity, upon acceleration, upon required prepayment or otherwise) any principal of any Loan, or (b) shall fail to pay any interest within ten (10) days after it first becomes due, or (c) shall fail to pay Fees or other amounts payable under the Loan Documents when due under the Loan Documents; or

7.1.2. Default in Other Debt. Any Borrower Party shall have defaulted (beyond any applicable grace period) under any Debt of such party (other than the Obligations) if the aggregate amount of such other Debt is One Million Dollars ($1,000,000) or more and such default shall not have been cured or waived; or

7.1.3. Breach of Covenants. Any Borrower Party shall fail to perform, comply with or observe any agreement, covenant or obligation under any of the Loan Documents (other than those set forth in the other subsections of this Section 7.1.) and such failure shall continue for a period of thirty (30) days after notice of such failure is given by the Agent; or

7.1.4. Breach of Warranty. Any representation or warranty or certification made or furnished by any Borrower Party under any Loan Document shall prove to have been false or incorrect in any Material respect when made (or deemed made); or

7.1.5. Involuntary Bankruptcy; Appointment of Receiver, Etc. There shall be commenced against any Borrower Party an involuntary case seeking the liquidation or reorganization of such Borrower Party under Chapter 7 or Chapter 11, respectively, of the Bankruptcy Code or any similar proceeding under any other Applicable Law or an involuntary case or proceeding seeking the appointment of a receiver, liquidator, sequestrator, custodian, trustee or other officer having similar powers of any Borrower Party or to take possession of all or any portion of its property or to operate all or a substantial portion of its business, and any of the following events occur: (a) such Borrower Party consents to the institution of the involuntary case or proceeding; (b) the petition commencing the involuntary case or proceeding is not timely controverted; (c) the petition commencing the involuntary case or proceeding remains undismissed or undischarged and unstayed for a period of sixty (60) days; or (d) an order for relief shall have been issued or entered therein; or

7.1.6. Voluntary Bankruptcy; Appointment of Receiver, Etc. Any Borrower Party shall institute a voluntary case seeking liquidation or reorganization under Chapter 7 or Chapter 11, respectively, of the Bankruptcy Code or any similar proceeding under any other Applicable Law, or shall consent thereto; or shall consent to the conversion of an involuntary case to a voluntary case; or shall file a petition, answer a complaint or otherwise institute any proceeding seeking, or shall consent to or acquiesce in the appointment of, a receiver, liquidator, sequestrator, custodian, trustee or other officer with similar powers of it or to take possession of all or a substantial portion of its property or to operate all or a substantial portion of its business; or shall make a general assignment for the benefit of creditors; or shall generally not pay its debts as they become due; or such Borrower Party (or any committee thereof) adopts any resolution or otherwise authorizes action to approve any of the foregoing; or

7.1.7. Judgments and Attachments. (a) A final unappealable judgment against a Borrower Party shall be entered for the payment of money in excess of Two and One Half Million Dollars ($2,500,000.00) and shall remain unsatisfied without procurement of a stay of execution within thirty (30) calendar days after the date of entry of judgment; or (b) a judgment creditor shall obtain a lien against or possession of any Real Property in the Unencumbered Pool by any means, including levy, distraint, replevin or self-help; or

7.1.8. Termination of Loan Documents, Etc. Any Loan Document, or any material provision thereof, shall cease to be in full force and effect for any reason, except upon a release or termination of such Loan Document pursuant to the terms thereof; or any Borrower Party shall contest or purport to repudiate or disavow any of its obligations under or the validity of enforceability of any Loan Document or any material provision thereof; or

7.1.9. Change of Control. A Change of Control shall occur;

7.1.10. Change of Condition. The Majority Lenders reasonably determine that a change has occurred since the date of this Agreement in the operations, business or condition, financial or otherwise, which change has a material and adverse effect on the ability of any of the Borrower Parties to perform its obligations under the Loan Documents, and fifteen (15) days have elapsed since the date that notice of such determination has been given to such Borrowing Party; or

7.1.11. Guaranty. An Event of Default shall occur under the Guaranty.

Section 7.2. Remedies. Upon the occurrence of an Event of Default:

7.2.1. If an Event of Default occurs under Section 7.1.5. or 7.1.6., then the Commitment shall automatically and immediately terminate, and the obligation of the Lender Parties to make any Loan hereunder shall cease, and the unpaid principal amount of the Loans and all other Obligations shall automatically become immediately due and payable, without presentment, demand, protest, notice or other requirements of any kind, all of which are hereby expressly waived by the Borrower.

7.2.2. If an Event of Default occurs, other than under Section 7.1.5. or 7.1.6., the Majority Lenders may declare the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by the Borrower.

7.2.3. The order and manner in which the Lenders' rights and remedies are to be exercised shall be determined by the Majority Lenders in their sole discretion. Regardless of how each Lender may treat payments received by it for the purpose of its own accounting, for the purpose of computing the Borrower's obligations under this Agreement and under the Notes, all moneys collected or received by the Agent on account of the Obligations or in respect of the security for the Obligations, directly or indirectly, shall be applied in the following order of priority:

7.2.3.1. to the payment of all proper and reasonable costs and expenses actually incurred in the collection of such moneys;

7.2.3.2. to the payment of all proper and reasonable costs and expenses (including attorneys' fees and disbursements and the allocated costs and expenses of in-house legal and other professional services) of the Agent, acting as Agent, and of the Lenders as set forth above;

7.2.3.3. (A) in case the entire unpaid principal of the Obligations shall not have become due and payable, first to the payment of interest on the Obligations ratably to the Lenders as their respective pro rata shares appear,

and then to the payment of principal to the Lenders as their respective pro rata shares appear, or (B) in case the entire unpaid principal of the Loan shall have become due and payable, to the payment of the whole amount then due and payable on the Obligations until paid in full, for principal to the Lenders as their respective pro rata shares appear, and for interest ratably to the Lenders as their respective pro rata shares appear; and

7.2.3.4. to the payment of all other amounts (including fees) then owing to the Agent or the Lenders under the Loan Documents.

No application of the payments will cure any Event of Default or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents or prevent the exercise, or continued exercise, of rights or remedies of the Lenders under this Agreement or under law.

ARTICLE 8.

APPOINTMENT, POWERS AND DUTIES OF LENDERS AND AGENT

Section 8.1. Relationship of Borrower and Lenders. It is expressly understood and agreed that with the exception of this Section 8.1., the provisions of Article 8. are among, and for the benefit of, the Lenders and the Agent only and contain terms, conditions and agreements to which the Borrower is not bound, under which the Borrower does not have rights, and with which the Borrower need not be concerned. Each of the Lenders and the Agent hereby agrees that as to all matters relating to the Loans and any other provision contained in this Agreement to which the Borrower is bound, unless expressly stated to the contrary, the Borrower need only deal with the Agent and need not send notice to or seek the consent or approval of any of the Lenders other than the Agent. The Borrower shall be entitled to rely solely on notices, consents, authorizations and directions received from the Agent and shall have no duty to inquire as to whether the Agent shall have received the consents or approval of the Lenders as provided in this Article 8. In the event the Agent or any of the Lenders breach their respective obligations under this Article 8., the sole remedy of the non-breaching parties shall be against the Lender or Agent which committed such breach, and the Borrower shall have no liability for such breach.

Section 8.2. Appointment and Authorization. Each Lender hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof or are reasonably incidental, as determined by the Agent, thereto; and each Lender hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof or are reasonably incidental, as determined by the Agent, thereto. These appointments and authorizations are intended solely for the purpose of facilitating the servicing of the Loans and do not constitute the appointment of the Agent as trustee for any Lender or as a representative of any Lender for any other purpose and, except as specifically set forth in this Agreement to the contrary, the Agent shall take such action and exercise such powers only in an administrative and ministerial capacity.

Section 8.3. Agent and Affiliates. The Agent and each successor thereto, has the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not a Agent. The terms "Lender(s)" or "Lender Parties" includes each Agent. Unless otherwise expressly prohibited hereunder, each Agent and each Lender (and each of the Lenders' respective successors) and its respective Affiliates may accept deposits from, lend money to, and generally engage in any kind of banking, trust or other business with, the Borrower, the Guarantor, any Affiliate of the Borrower or of the Guarantor, as if it were not a Agent or a Lender, as the case may be, and without any duty to account therefor to the other Lenders. No Agent shall be obligated to account to any other Lender for any monies received by it for any credit facility management fees, reimbursement of its costs and expenses as Agent under this Agreement, or for any monies received by it in its capacity as

a Lender under this Agreement. If any property is taken by any Agent or any Lender as collateral for any other loans or extensions of credit made by any Agent or any Lender to or for the Borrower, or any property is in any Agent's or any Lender's possession or control, or any deposit is held or other indebtedness is owing by any Agent or any Lender, and that property, deposit or indebtedness, or the proceeds thereof, may be or become collateral for or otherwise available for payment in connection with the Obligations by reason of the general description of secured obligations contained in any security agreement or other agreement or instrument held by any Agent, or any Lender or by reason of a right of setoff, counterclaim or otherwise, the other Lenders shall have no interest in that property, deposit or indebtedness, or the indebtedness, or the proceeds thereof, except that if the property, deposit or indebtedness, or the proceeds thereof, shall be applied in reduction of amounts outstanding in connection with the Obligations, then each Lender shall be entitled to its pro rata share therein.

Section 8.4. Lenders' Credit Decisions. Each Lender hereby acknowledges that it has received the Loan Documents and financial statements, certificates, instruments, documents, affidavits, resolutions and agreements as it deemed necessary to make its own credit analysis and decision to enter into this Agreement. Each Lender agrees that it has, independently and without reliance upon the Agent, any Lender or the directors, officers, agents or employees of the Agent or any Lender, and instead in reliance upon information supplied to it by or on behalf of the Borrower and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Lender also agrees that it shall, independently and without reliance upon the Agent, any Lender or the directors, officers, agents or employees of the Agent or any Lender, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents.

Section 8.5. Action by Agent.

8.5.1. The Agent has only those obligations under the Loan Documents as are expressly set forth therein.

8.5.2. The Agent may assume that no Event of Default has occurred, unless the Agent has actual knowledge of the Event of Default, has received notice from the Borrower stating the nature of the Event of Default, or has received notice from a Lender stating the nature of the Event of Default and that the Lender considers the Event of Default to have occurred.

8.5.3. If the Agent has actual knowledge of an Event of Default, has received notice from the Borrower stating the nature of an Event of Default or has received notice from a Lender stating the nature of an Event of Default, such Agent shall give notice thereof to the Lenders.

8.5.4. Except for any obligation expressly set forth in the Loan Documents and as long as the Agent may assume that no Event of Default has occurred, the Agent may, but shall not be required to, exercise its discretion to act or not act, except that (i) the Agent may, if it elects to do so in its sole discretion, suspend the taking of any action pending receipt of instructions or authorizations from the Majority Lenders of the action to be taken and (ii) the Agent shall be required to act or not act upon the instructions of the Majority Lenders and those instructions shall be binding upon the Agent and all the Lenders, provided that the Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law.

8.5.5. If the Agent has knowledge that an Event of Default has occurred, the Agent shall act or not act upon the instructions of the Majority Lenders, provided that the Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law, and except that if the Majority Lenders fail to instruct the Agent within the time periods set forth herein, then the Agent in its discretion, may act or not act as it deems advisable for the protection of the interests of the Lenders.

8.5.6. The Agent shall have no liability to any Lender for acting, or not acting, notwithstanding any other provision hereof, except for its own gross negligence or willful misconduct while so acting or not acting.

Section 8.6. Non-Liability of Agent. The Agent shall perform its duties under this Agreement and the other Loan Documents with the same degree of care as the Agent would use in performing similar functions with respect to a loan of similar size and type held for its own account. Neither the Agent, nor any of its respective directors, officers, agents or employees shall be liable for any action taken or not taken by them under or in connection with the Loan Documents or as instructed by the Majority Lenders, except for its own gross negligence or willful misconduct. Without limitation on the foregoing, but subject to the foregoing provisions concerning gross negligence or willful misconduct, the Agent and its respective directors, officers, agents and employees:

8.6.1. may treat the payee of any Note as the holder thereof until the Agent receives notice of the assignment or transfer thereof, and may treat each Lender as the owner of that Lender's interest in the Obligations for all purposes of this Agreement until the Agent receives notice of the assignment or transfer thereof;

8.6.2. may consult with legal counsel (including in-house legal counsel), accountants (including in-house accountants) and other professionals or experts selected by it, or with legal counsel, accountants or other professionals or experts for the Borrower, and shall not be liable for any action taken or not taken by it or them in good faith in accordance with the advice of such legal counsel, accountants or other professionals or experts;

8.6.3. make no representation or warranty to any Lender and will not be responsible to any Lender for any statement, warranty or representation made

in any of the Loan Documents or in any notice, certificate, report, request or other statement (written or oral) in connection with any of the Loan Documents or the financial condition of the Borrower or any other party or for the title of any collateral hereunder;

8.6.4. except to the extent expressly set forth in the Loan Documents, will have no duty to ascertain or inquire as to the performance or observance by the Borrower of any of the terms, conditions or covenants of any of the Loan Documents or to inspect the property, books or records of the Borrower;

8.6.5. will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency, value or collectability of any Loan Document, or any other instrument or writing furnished pursuant thereto or in connection therewith;

8.6.6. will not be responsible to any Lender for the legality, validity, enforceability, genuineness, sufficiency, perfection (other than the timely filing of any continuation statements for financing statements given to the Agent by the Borrower in connection with the collateral hereunder), value, collectability or priority of any rights in all or any portion of the collateral hereunder;

8.6.7. will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, request or other instrument or writing (which may be by telegram, telecopy, cable or telex) believed by it or them to be genuine and signed or sent by the proper party or parties; and

8.6.8. will not incur any liability for any arithmetical error in computing any amount payable to or receivable from any Lender pursuant to this Agreement, including without limitation principal, interest, fees, Loans and other amounts; provided that promptly upon discovery of such an error in computation, the Agent, the Lenders and (to the extent applicable) the Borrower shall make such adjustments as are necessary to correct such error and to restore the parties to the position that they would have occupied had the error not occurred.

Section 8.7. Indemnification.

8.7.1. Each Lender, individually and severally in accordance with its pro rata share, agrees to indemnify, defend, reimburse and hold the Agent (and its directors, officers, agents or employees) ("Indemnified Parties") harmless, within ten (10) Business Days of request therefor (to the extent not reimbursed by the Borrower), in accordance with its pro rata share, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, and costs, expenses or disbursements which may be imposed on, incurred by, or asserted against the Indemnified Parties in any way relating to or arising out of the Obligations, or any action taken or omitted by the Indemnified Parties under the Loan Documents, provided that each Lender shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from: (i) the gross negligence or willful misconduct of the Indemnified Parties or their breach hereunder or (ii) the acts or omissions of any other Lender or Agent. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its pro rata share in any and all out-of-pocket costs, disbursements and expenses (including appraisal fees, third-party expanses and reasonable counsel fees) incurred or made by the Agent or any of them after the Closing Date in connection with the preparation, execution, delivery, modification, amendment, collection or enforcement (whether through negotiations, legal proceedings, foreclosure or otherwise) of, or legal advice in respect of rights or responsibilities under, the Loan Documents, to the extent that the Agent is not reimbursed for such expenses by the Borrower. In addition, each Lender agrees to reimburse the Agent promptly upon demand for its pro rata share in all protective advances made by the Agent. The Agent shall be entitled to deduct from any payments to be made to any Lender under this Agreement, and to retain, amounts due the Agent as reimbursement hereunder, provided that the Agent shall have first delivered to such Lender thirty (30) days prior written notice of such amounts and the circumstances giving rise thereto, and such Lender has not paid such amounts The Agent shall make reasonable attempts to collect such amounts referred to in this Section 8.7.1. from the Borrower to the extent that the Borrower is obligated to make such reimbursement under this Agreement. If the Agent receives payment of any amount referred to in this Section 8.7.1. from the Borrower or any third party after a Lender has reimbursed the Agent for such amount, the Agent shall promptly return to such Lender the amount of the reimbursement (or, if more than one Lender made reimbursement, such Lender's ratable portion thereof).

8.7.2. Each Defaulting Lender shall indemnify, defend and hold the Agent and each of the other Lenders harmless from and against any and all losses, damages, liabilities or expenses (including, but not limited to,

reasonable attorneys' fees and interest at the Default Rate set forth in the Loan Documents for funds advanced by any of the Agent or any other Lender on account of such Defaulting Lender) which they may sustain or incur by reason of or in consequence of each Defaulting Lender's failure or refusal to abide by its obligations under this Agreement. The Agent shall setoff against principal and interest payments due to each Defaulting Lender for the claims of the Agent and the other Lenders against such Defaulting Lender. The exercise of the above remedies shall not reduce, diminish or liquidate the Defaulting Lender's pro rata share of the obligations for the sharing of losses and reimbursement of costs, liabilities and expenses under the Loan Documents.

Section 8.8. The Agent. The Agent shall have primary responsibility for the following activities:

(i) Funding the Loans in accordance with the provisions of this Agreement and the Loan Documents. With respect to the respective pro rata shares of the Lenders in the Loans, unless the Agent receives notice from a Lender on or prior to the Closing or, with respect to any Loan made after the Closing, at least one Business Day prior to the date of such Loan, that such Lender will not make available as and when required hereunder to the Agent for the account of the Borrower the amount of such Lender's pro rata share of the Loan, the Agent may assume that each Lender has made such amount available to the Agent in immediately available funds on the Funding Date and the Agent may (but shall not be so required), in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Agent in immediately available funds and the Agent in such circumstances has made available to the Borrower such amount, that Lender shall on the Business Day following such Funding Date make such amount available to the Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Agent submitted to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Agent shall constitute such Lender's Loan on the Funding Date for all purposes of this Agreement. If such amount is not made available to the Agent on the Business Day following the Funding Date, the Agent will notify the Borrower of such failure to fund and, upon demand by the Agent, the Borrower shall pay such amount to the Agent for the Agent's account, together with interest thereon for each day elapsed since the date of such Loan, at a rate per annum equal to the interest rate applicable at the time to such Loan;

(ii) Receiving all payments of principal, interest, fees and other charges paid by, or on behalf of, the Borrower and distribute such funds to the Lenders as specifically required in this Agreement.

Section 8.9. Successor Agent.

8.9.1. Upon written notice to the Lenders, the Agent may resign as Agent hereunder at any time without the prior written consent of the Lenders or any of them. Upon any such resignation in accordance with the foregoing provisions, the Majority Lenders shall have the right to appoint a successor Agent (subject to the provisions below).

8.9.2. In addition, the Majority Lenders may elect, by written notice to the Agent, to remove the Agent hereunder for good cause. Upon any such removal in accordance with the foregoing provisions, the Majority Lenders shall have the right to appoint a successor.

8.9.3. If, within thirty (30) days of the giving of notice of the Agent's resignation, a successor Agent has not been appointed by the Majority Lenders or such successor has not accepted such appointment, the retiring Agent may, on behalf of the Lenders, appoint a successor Agent. Any successor Agent must be a Lender. Upon the acceptance of any appointment as the Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of a retiring (or removed) Agent, including the right to any agency fee to be paid by the Borrower, and the retiring (or removed) Agent shall be discharged from its duties and obligations under this Agreement.

Section 8.10. Powers of the Agent. Except as otherwise expressly provided for in this Agreement, and subject to the provisions of Section 8.11. hereof, the Agent shall have the right, in its sole discretion, in each instance: (a) to grant or withhold approvals under the Loan Documents; (b) to exercise or refrain from exercising any rights which the Agent or the Lenders may have with respect to the obligations, the Loan Documents, or with respect to any of the collateral hereunder; and (c) including, without limitation, the right to:

(i) Receive, review and process all documents, certificates, opinions, insurance policies, reports, requisitions and other materials of every nature and description submitted by, or on behalf of, the Borrower or any other party;

(ii) Enforce all of the rights, remedies and privileges afforded or available to the Lenders under the terms of this Agreement and the other Loan

Documents, any opinion, certificates, warranties, representations or insurance policies furnished by or on behalf of the Borrower or any other party (but only after election to declare an Event or Events of Default and/or to accelerate amounts outstanding under the Loan Documents as provided in this Agreement); and

(iii) Do or refrain from doing all such other acts as may be reasonably necessary or incident to the implementation, administration or servicing of the Loan Documents and the enforcement of the rights and remedies of the Lenders.

Section 8.11. Limitations on the Agent. Notwithstanding anything to the contrary herein contained, the Agent shall not (a) agree to the modification or waiver of any of the terms of this Agreement, the Notes, or the other Loan Documents, or (b) consent to any act or omission by the Borrower, or any other party, or (c) exercise any rights which either Agent or the Lenders may have with respect to the Obligations, this Agreement, the Notes, or the other Loan Documents, if any such modification, waiver, agreement, consent or exercise would compromise or settle any litigation or legal proceeding against the Borrower or the Guarantor in connection with the Obligations in any manner which would have a Material and Adverse Effect on the interest of any Lender in the Obligations once such litigation or legal proceeding has been commenced by the Agent; or, unless consented to in writing by the Majority Lenders or by all of the Lenders if required by Section 9.3.1.1.

As to any matters which are subject to the consent of the Majority Lenders (as the case may be), the Agent shall not be permitted to exercise any discretion or take any action except upon the instructions of the Majority Lenders, which instructions shall be binding upon all Lenders. The Agent and its directors, officers, agents and employees shall be fully protected in acting or in refraining from acting upon such instructions (subject to Section 8.5.), but in no event shall the Agent be required to take any action which exposes the directors, officers, agents or employees of the Agent to personal liability or which is contrary to the Loan Documents or applicable Law. As to any matters not expressly provided for by the Loan Documents or this Agreement, the Agent shall not be required to exercise any discretion or take any action, unless such inaction on the part of an Agent exposes the Agent or its directors, officers, agents or employees to personal liability or is contrary to applicable Law. In acting hereunder as an Agent, Agent shall be acting for the account of and as agent for all Lenders, to the extent of their respective pro rata shares in the Obligations.

Section 8.12. Approval of Lenders.

8.12.1. All communications ("Communication") from the Agent to the Lenders requesting the Lenders' determination, consent, approval or disapproval (i) shall be given in the form of a written notice to each Lender, (ii) shall be accompanied by a description of the matter or thing as to which such determination, approval, consent or disapproval is requested, or shall advise each Lender where such matter or thing may be inspected, or shall otherwise describe the matter or issue to be resolved, (iii) shall include, if reasonably requested by a Lender and to the extent not previously provided to such Lender, written materials and a summary of all oral information provided to the Agent by the Borrower in respect of the matter or issue to be resolved, and (iv) shall include the Agent's recommended course of action or determination in respect thereof and the date by which the Lender shall respond. Each Lender shall reply promptly, but in any event (x) if this Agreement or any other Loan Document sets forth a period within which the Lenders are to reply to the Communication, each Lender shall reply to the Communication within such period, or (y) if no such period is set forth, within ten (10) Business Days (or such lesser period as may be required under the Loan Documents for the Agent to respond) for those matters requiring the consent by all Lenders, Majority Lenders or less than Majority Lenders, in each instance, after receipt of the request therefore by the Agent (in any event, the "Lender Reply Period").

8.12.2. Unless a Lender shall give written notice to the Agent that it objects to the recommendation or determination of the Agent (together with a written explanation of the reasons behind such objection), within the Lender Reply Period, such Lender shall be deemed to have approved of or consented to such recommendation or determination.

Section 8.13. Method of Payment. Upon receipt of any payments of principal, interest and late payment charges in connection with the Loan Documents or Fees, the Agent shall distribute each such payment in accordance with the applicable provisions of this Agreement. If the Agent fails to make such distribution by the close of business on the Business Day on which such payment is required to be delivered pursuant to the terms of this Agreement, the Agent shall remit to each Lender its Pro Rata Share in such payment on the immediately following Business Day, together with interest thereon at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York.

Each payment to the Agent under this Section 8.13. shall constitute a similar payment by the Borrower to each Lender, and any portion of the Obligations paid by any such payment to the Agent by or on behalf of the Borrower shall not be considered outstanding for any purpose after the date of its receipt by the Agent; provided, however, as between each Lender and the Agent, such payment shall be deemed outstanding until made by the Agent to each Lender in accordance with the provisions above. In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any apportionment or distribution of payments made by it in good faith pursuant to this Agreement, and if any such apportionment or distribution is subsequently determined to have been made in error, the sole recourse of any Person to whom payment was due, but not made, shall be, except as otherwise expressly set forth in this Agreement, to recover from the recipient of such payment any payment in excess of the amount to which they are determined to have been entitled.

Section 8.14. Increased Costs. If any Lender is entitled to and decides to require payment of any amounts described in Sections 2.9. or 2.10., such Lender shall: (a) give written notice thereof to the Borrower and shall send a copy of such notice to the Agent, and such amounts shall be payable to such Lender in accordance with the terms of Sections 2.9. or 2.10.; and (b) simultaneously with the giving of such notice, furnish to the Borrower (and deliver a copy to the Agent) (i) a certificate of an officer of such Lender setting forth the amount to which such Lender is then entitled pursuant to Section 2.9. or 2.10. and (ii) such other information, certifications and documentation as is required to be furnished to the Borrower under the terms of Section 2.9. or 2.10.

Section 8.15. Taxes. Except as specifically set forth in this Agreement, all taxes due and payable on any payments to be made to the Lenders in respect of the Obligations or under this Agreement shall be the Lenders' sole responsibility. All payments payable to the Lenders hereunder or with respect to the Loan Documents shall be made to the Lenders without deduction for any taxes, charges, levies or withholdings except to the extent, if any, that such amounts are required to be withheld by the Agent under the laws, rules and regulations of the United States of America and any other applicable taxing authority. If a Lender is organized or is existing under the laws of another jurisdiction outside the United States, such Lender shall provide to the Agent upon the execution of this Agreement and, from time to time thereafter, completed and signed copies of any form that may be required by the United States Internal Revenue Service in order to certify such Lender's exemptions from United States withholding taxes with respect to payments to be made to such Lender in respect of the Obligations or under this Agreement.

Section 8.16. Excess Payments. If a Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff or otherwise) on account of its interest in the Obligations in excess of its pro rata share in the Obligations, such excess shall be shared among all Lenders in accordance with their respective pro rata shares. However, if all or any portion of such excess payment is thereafter recovered by the Borrower or other party entitled thereto through legal action or otherwise, each Lender shall promptly reimburse the party required to refund such payment to the Borrower or other party entitled thereto in an amount equal to such Lender's pro rata share in the amount of the excess required to be refunded. Within three Business Days after obtaining any such payment, the Lender obtaining the same agrees to notify the Agent of such excess payment.

Section 8.17. Return of Payments. If, for any reason, the Agent makes any payment to a Lender before the Agent has received or applied that corresponding payment on the obligations (it being understood that the Agent is under no obligation to do so), and, thereafter, the Agent does not receive the corresponding payment within five Business Days after the date the Agent made such payment to a Lender (or in the event the Agent by error makes a payment to a Lender to which it is not entitled), such Lender shall, at the Agent's request, promptly return that payment to the Agent (together with interest on that payment at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York for each day from the making of that payment to such Lender until its return to the Agent); provided, however, interest on such payment shall not be due: (a) if such payment was made to a Lender and such Lender had no knowledge that it had received such payment due to error which was the fault of the Agent (except for the period after which such Lender receives notice that it has received such payment), and (b) if such Lender can provide the Agent with evidence, reasonably satisfactory to the Agent, that any such payment received by such Lender was not invested by such Lender. If the Agent has received or applied any payment in respect of the Obligations and has paid a Lender its Pro Rata Share in such payment and, thereafter, the payment or application is rescinded or must otherwise be returned or paid over by the Agent, whether or not required pursuant to any bankruptcy or insolvency law, the sharing of payments clause of any loan agreement or otherwise, such Lender will, at the Agent's request, promptly return its pro rata share in that payment or application to the Agent, together with such Lender's pro rata share in any interest or other amount required to be paid by the Agent with respect to that

payment or application.

Section 8.18. Default By The Borrower; Acceleration. The Agent will send to each Lender copies of any notices of a Default or an Event of Default sent by the Agent to the Borrower under the terms of the Loan Documents promptly after sending the same to the Borrower, but in any case within three Business Days after sending the same to the Borrower. In the event of any Default or Event of Default, the Agent shall (as soon as is practicable under the circumstances) consult with the Lenders in an effort to determine a mutually acceptable course of action with respect to the Default or Event of Default. The Agent may deliver to the Lenders a written recommendation of a course of action (the "recommended course of action"), in which case each Lender shall either approve such action in writing or object in writing to such action within thirty (30) days (or such lesser period as specified in the notice from the Agent) following such notice. Failure to deliver a written objection within thirty (30) days (or such lesser period) will be deemed to constitute an approval. The Agent may take the recommended course of action if consented or approved as provided above by the Majority Lenders; provided that no rights shall be released without the consent of all Lenders. In furtherance of the foregoing, and notwithstanding anything herein to the contrary, each Lender hereby appoints and constitutes the Agent its agent with full power and authority to exercise in the name of, and on behalf of each Lender, any and all rights and remedies which each Lender may have with respect to, and to the extent necessary under applicable law for, the enforcement of the Loan Documents, or which the Agent may have as a matter of law. It is understood and agreed that in the event the Agent determines it is necessary to engage counsel for the Lenders from and after the occurrence of an Event of Default, said counsel shall be selected by the Agent and written notice of the same shall be delivered to the Lenders.

Section 8.19. Defaults by Lender.

8.19.1. If for any reason any Lender ("Defaulting Lender") shall fail or refuse to abide by its obligations under this Agreement or under any Loan Document and such failure or refusal shall continue for five (5) Business Days after notice with respect to monetary obligations hereunder or under any Loan Document or thirty (30) days after notice with respect to non-monetary obligations hereunder or under any Loan Document (provided, however, that if such non-monetary default is of a nature that the same cannot be reasonably cured within thirty (30) days and such Lender shall have commenced to cure such non-monetary default within such period and shall thereafter proceed with reasonable due diligence and good faith to cure such non-monetary default, such period shall be extended for such longer period as shall be necessary for such Lender to cure such default with all reasonable diligence, but in no event beyond that date which is one hundred twenty (120) days after such Lender received notice of such default), then, in addition to the rights and remedies that may be available to the Agent at law and in equity, such Defaulting Lender's right to participate in the administration of the Loan Documents, including, without limitation, any rights to consent to or direct any action or inaction of the Agent, pursuant to Section 8.11. above or otherwise, or to be taken into account in the calculation of Majority Lenders, shall be suspended during the pendency of such failure or refusal. If for any reason a Lender fails to make timely payment to the Agent of any amount required to be paid to it hereunder (without giving effect to any notice or cure periods), in addition to other rights and remedies which the Agent may have under this Section 8.19.1. or otherwise, the Agent shall be entitled (i) to collect interest from such Lender for the period from the date on which the payment was due at the overnight rate for federal funds transactions between member Lenders of the Federal Reserve System, as published by the Federal Reserve Bank of New York, for each day during such period, (ii) to withhold or setoff, and to apply to the payment of the defaulted amount and any related interest, any amounts to be paid to such Lender under this Agreement, and (iii) to bring an action or suit against such Lender in a court of competent jurisdiction to recover the defaulted amount and any related interest.

8.19.2. In the event a Lender becomes a Defaulting Lender, other Lenders shall have the right, but not the obligation, in their sole discretion, to acquire (or, if more than one Lender exercises such right, each such Lender shall have the right to acquire, pro rata, or such proportion as they may mutually agree) the pro rata share in the Obligations of the Defaulting Lender. Upon any such purchase of the Pro Rata Share in the Obligations of the Defaulting Lender, the Defaulting Lender's interest in the Obligations and its rights hereunder (but not its liability with respect thereof or under the Loan Documents or this Agreement to the extent the same relate to the period prior to the effective date of the purchase) shall terminate at the date of purchase, and the Defaulting Lender shall promptly execute all documents reasonably requested to surrender and transfer such interest, including an Assignment and Assumption. On or before the date of such purchase, the Defaulting Lender shall pay to the Agent a processing fee of Five Thousand Dollars ($5,000.00).

8.19.3. The Lenders, and each of them, shall have the right to acquire the pro rata share in the Obligations of the Defaulting Lender pursuant to

Section 8.19.2. for a purchase price equal to the proportionate share amount of the principal balance of the Obligations outstanding and owed by the Borrower to the Defaulting Lender. Payment of the purchase price for the Defaulting Lender's pro rata share in the Loan so acquired shall be deferred and shall be limited to and made only from the repayment of the outstanding principal balance of the Obligations (after all of the non-defaulting Lenders have been paid the full principal amount of their respective proportionate shares of the Obligations exclusive of any Defaulting Lender's proportionate share-which may have been purchased pursuant to Section 8.19.2.), if and as received in repayment of principal of the Obligations, and credited to the pro rata share in the Obligations previously owned by the Defaulting Lender. Interest on the purchase price of the Defaulting Lender's pro rata share in the Obligations shall be paid to the Defaulting Lender. Such interest shall be equal to the amount that would have been payable to the Defaulting Lender pursuant to the terms of this Agreement, calculated on the unpaid balance of the purchase price, and payment thereof shall be limited to and made only from the repayment of interest on the Obligations, and credited to the pro rata share in the Obligations previously owned by the Defaulting Lender. The Defaulting Lender shall also be entitled to receive amounts owed to it by the Borrower under the Loan Documents which accrued prior to the date of the default by the Defaulting Lender, to the extent the same are received by the Agent from or on behalf of the Borrower. There shall be no recourse against any non-defaulting Lender nor the Agent for the payment of such sums except to the extent of the receipt of such sums from the Borrower by a non-defaulting Lender or the Agent. Payments to the Defaulting Lender shall be made promptly after receipt of such payments by the Agent in accordance with the payment provisions set forth in Section 8.13. hereof.

8.19.4. The provisions of Sections 8.19.2. and 8.19.3. shall not preclude any Lender from acquiring the interest of a Defaulting Lender on any other terms agreed to by the Defaulting Lender and the purchasing Lender(s).

Section 8.20. No Partnership or Joint Venture. Neither the execution of this Agreement nor the purchase of the pro rata share in the Obligations or in the Loan Documents, or any agreement to share in profits and losses arising out of this transaction, is intended to be, nor shall it be construed to be, the formation of a partnership or joint venture between any of the Lenders, or the Agent, and none of the Agent or Lenders shall be liable to any other person or entity for the liability in tort or contract of the Agent or any other Lender arising in connection with the Obligations or any transaction connected herewith or therewith nor shall the Agent have any fiduciary obligations to any Lender. The Agent shall have and may exercise such powers as are specifically delegated to it under this Agreement.

Section 8.21. Indemnification. Agent shall not in any event be required to take any action under the Loan Documents or in relation thereto unless it shall first be indemnified to its satisfaction by the Lender parties against any and all liability and expense that it may incur by reason of taking any such action. Each Lender agrees to indemnify and hold the Agent harmless (to the extent not promptly paid or reimbursed by the Borrower, ratably according to their respective Commitments), from and against any and all (a) costs, expenses and other amounts incurred by the Agent otherwise payable by the Borrower pursuant to Section 9.1. and (b) Indemnified Liabilities that may be imposed on, incurred by, or asserted against the Agent, except to the extent they are finally adjudged by a court of competent jurisdiction to have directly resulted from the gross negligence or willful misconduct of the Agent. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect to rights or responsibilities under, the Loan Documents, to the extent that the Agent is not promptly reimbursed for such expenses by the Borrower.

ARTICLE 9.

MISCELLANEOUS

Section 9.1. Expenses. The Borrower shall pay on demand:

9.1.1. Any and all reasonable attorneys' fees and disbursements (including allocated costs of in-house counsel) and out-of-pocket cost and expenses incurred by the Agent in connection with the development, drafting and negotiation of the Loan Documents, and the arrangement, underwriting, syndication, administration and closing of the transactions contemplated thereby; and

9.1.2. all costs and expenses (including fees and disbursements of in-house and other attorneys, appraisers and consultants) incurred by the Lender Parties in any amendment, workout, restructuring or similar arrangements or, in connection with the administration (including photocopying and overnight mail cost for communication with Lenders), protection, preservation, exercise or enforcement of any of the terms of the Loan Documents or in connection with any

collection or bankruptcy proceedings.

Section 9.2. Indemnity.

9.2.1. Borrower shall indemnify, defend and hold harmless each Lender Party and the officers, directors, employees, agents, attorneys, affiliates, successors and assigns of each Lender Party (collectively, the "Indemnitees") from and against (a) any and all transfer taxes, documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of the Loan Documents or the making of the Loans, and (b) any and all liabilities, losses, damages, penalties, judgments, claims, costs and expenses

of any kind or nature whatsoever (including reasonable attorneys' fees, including allocated costs of in-house counsel, and disbursements in connection with any actual or threatened investigative, administrative or judicial proceeding, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by or asserted against such Indemnitee, in any manner relating to or arising out of the relationship between any Borrower Party and any Lender Party under any of the Loan Documents, the Loans, the use or intended use of the proceeds of the Loans (the "Indemnified Liabilities"); provided that (i) no Indemnitee shall have the right to be indemnified or held harmless hereunder for its own gross negligence or willful misconduct, as determined by a final judgment of a court of competent jurisdiction, and (ii) Indemnified Liabilities shall include amounts attributable to the passive or active negligence of any Lender Party

9.2.2. Each Indemnitee will promptly notify the Borrower of each event of which it has knowledge that may give rise to a claim under clause (b) of Section 9.2.1., provided that the failure to so notify the Borrower shall in no way impair the Borrower's obligations under this Section 9.2. (except to the extent that such failure to so notify arises from the gross negligence or willful misconduct of such Indemnitee and has an adverse effect on the Borrower). If any investigative, judicial or administrative proceeding is brought against any Indemnitee indemnified or intended to be indemnified pursuant to this Section 9.2., the Borrower, to the extent and in the manner directed by the Indemnitee, will resist and defend such proceeding with counsel designated by the Borrower (which counsel shall be reasonably satisfactory to the Indemnitee). Each Indemnitee will use its best efforts to cooperate in the defense of any such action, writ, or proceeding. The Borrower shall keep such Indemnitee advised of the status of such defense and consult with such Indemnitee prior to taking any material position with respect thereto. Such Indemnitee shall, however, be entitled to employ counsel separate from counsel for the Borrower and from any other party in such proceeding if such Indemnitee shall reasonably determine that a conflict of interest or other circumstance exists that makes representation by counsel chosen by the Borrower not advisable. The fees and disbursements of such separate counsel shall be paid by the Borrower. Such Indemnitee shall not agree to the settlement of any such claim without the consent of the Borrower, unless the Borrower shall have been given notice of the commencement of an action and shall have failed to provide the defense thereof as herein provided or an Event of Default shall have occurred.

9.2.3. To the extent that the undertaking to indemnify and hold harmless set forth in Section 9.2.1. may be unenforceable as violative of any Applicable Law or public policy, the Borrower shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities that is permissible under Applicable Law. All Indemnified Liabilities shall be payable on demand.

Section 9.3. Waivers; Modifications in Writing.

9.3.1. No amendment of any provision of this Agreement or any other Loan Document (including a waiver thereof or consent relating thereto) shall be effective unless the same shall be in writing and signed by the Agent and the Majority Lenders. Notwithstanding the foregoing,

9.3.1.1. no amendment that has the effect of (a) reducing the rate or amount, or extending the stated maturity or due date, of any amount payable by the Borrower to any Lender Party under the Loan Documents, (b) increasing the amount, or extending the stated termination or reduction date, of any Lender's Revolving Commitment hereunder or subjecting any Lender Party to any additional obligation to extend credit, (c) altering the rights and obligations of the Borrower to prepay the Loans, (d) releasing any Guarantor under the Guaranty, (e) changing this Section 9.3. or the definition of the term "Majority Lenders," or (f) forgiving of principal or interest, shall be effective unless the same shall be signed by or on behalf of all of the Lenders;

9.3.1.2. no amendment that has the effect of (a) increasing the duties or obligations of the Agent, (b) increasing the standard of care or performance required on the part of the Agent, or (c) reducing or eliminating the indemnities or immunities to which the Agent is entitled (including any

amendment of this Section 9.3.1.2.), shall be effective unless the same shall be signed by or on behalf of the Agent; and

9.3.1.3. any waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances. Any amendment effected in accordance with this Section 9.3. shall be binding upon each present and future Lender Party and the Borrower.

Section 9.4. Cumulative Remedies; Failure or Delay. The rights and remedies provided for under this Agreement are cumulative and are not exclusive of any rights and remedies that may be available to the Lender Parties under Applicable Law or otherwise. No failure or delay on the part of any Lender Party in the exercise of any power, right or remedy under the Loan Documents shall impair such power, right or remedy or operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or remedy preclude other or further exercise thereof or of any other power, right or remedy.

Section 9.5. Notices, Etc. All notices and other communications under this Agreement shall be in writing and (except for financial statements, other related informational documents and routine communications, which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by prepaid courier, by overnight, registered or certified mail (postage prepaid), or by prepaid telex or telecopy, and shall be deemed given when received by the intended recipient thereof. Unless otherwise specified in a notice sent or delivered in accordance with this Section 9.5., all notices and other communications shall be given to the parties hereto at their respective addresses (or to their respective telex or telecopier numbers) indicated on the signature pages attached hereto.

Section 9.6. Successors and Assigns.

9.6.1. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The Borrower may not assign or transfer any interest hereunder without the prior written consent of each Lender.

9.6.2. Each Lender shall have the right at any time to assign (an "Assignment") all or any portion of such Lender's Revolving Commitment to one or more Lenders or other institutions; provided that the following conditions are satisfied: (a) each Assignment shall be of a portion of the Revolving Commitment at least equal to $10,000,000 and, unless otherwise agreed by the Agent, each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement and the other Loan Documents; (b) no Assignment (other than an Assignment to a Person that is then a Lender or an Affiliate of a Lender) shall be effective without the consent of the Borrower and the Agent, which consents shall not be unreasonably withheld or delayed; provided, however, no consent of the Borrower will be required if a monetary Event of Default has occurred and has not been cured on or prior to the date that is six (6) months after such occurrence, and the Majority Lenders have not, on or prior to the expiration of such six (6) month period, agreed upon a plan submitted by the Borrower (which may be an interim plan) setting forth the Borrower's then intended plan to cure such Event of Default (provided, further, that nothing herein shall constitute a waiver by any Lender Party of any rights or remedies of any Lender Party upon the occurrence of a Default or an Event of Default); (c) the parties to the Assignment shall execute and deliver to the Agent, with a copy to the Borrower, an Assignment and Assumption substantially in the form of Exhibit E (an "Assignment and Assumption"); (d) the assignee shall pay to the Agent a processing and recordation fee of $3,000; (e) if the assignee is not organized and existing under the laws of the United States of America or any political subdivision thereof or therein, the assignee shall have furnished to the Borrower the Prescribed Forms; and (f) the Revolving Commitment retained by the Agent shall not be reduced below the amount of the largest Revolving Commitment held by any Lender other than Agent. Each proposed assignee must be an existing Lender or a bank or financial institution which (A) has (or, in the case of a bank which is a subsidiary, such bank's parent has) a rating of its senior unsecured debt obligations of not less than Baa-2 by one of the Rating Agencies and (B) has total assets in excess of Ten Billion Dollars ($10,000,000,000). Unless Borrower gives written notice to the assigning Lender that it objects to the proposed assignment (together with a written explanation of the reasons behind such objection) within ten (10) Business Days following receipt of the assigning Lender's written request for approval of the proposed assignment, Borrower shall be deemed to have approved such assignment. From and after the date on which the conditions in the foregoing clauses and the Assignment and Acceptance have been satisfied, the assignee shall be a "Lender" hereunder and, to the extent that rights and obligations hereunder have been assigned to it, shall have the rights and obligations, and the assigning Lender shall, to the extent that rights and obligations hereunder have been assigned by it, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment covering all or the remaining portion of the assigning Lender's rights and obligations under this Agreement, cease to be a party hereto).

9.6.3. Each Lender shall have the right at any time to grant or sell participations (each a "Participation") in all or any portion of such Lender's Revolving Commitment, Loans to one or more Lenders or other institutions, subject to the terms and conditions set forth in this Section 9.6.3.. If any Lender sells or grants a Participation, (a) such Lender shall make and receive all payments for the account of its participant, (b) such Lender's obligations under this Agreement shall remain unchanged, (c) such Lender shall continue to be the sole holder of its Notes and other Loan Documents subject to the Participation and shall have the sole right to enforce its rights and remedies under the Loan Documents, (d) the Borrower and the other Lender Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents, and (e) the Participation agreement shall not restrict such Lender's ability to agree to any amendment of the terms of the Loan Documents, or to exercise or refrain from exercising any powers or rights that such Lender may have under or in respect of the Loan Documents, except that the participant may be granted the right to consent to any (A) reduction of the rate or amount, or any extension of the stated maturity or due date, of any principal, interest or Fees payable by the Borrower and subject to the Participation, (B) increase in the amount or extension of the stated termination or any reduction date of the affected Revolving Commitment or Term Commitment or (C) release of the Guaranty, except to the extent otherwise provided in the Loan Documents. A participant shall have the rights of the Lenders under Sections 2.9., 2.10. and 9.9., subject to the obligations imposed by such Sections; provided that amounts payable to any participant shall not exceed the amounts that would have been payable under such Sections to the Lender granting the Participation, had such Participation not been granted, unless the Participation is made with the prior written consent of the Borrower.

9.6.4. Each Lender may at any time assign or pledge any portion of its rights under the Loan Documents to a Federal Reserve Bank. No such assignment or pledge shall be subject to the provisions of Sections 9.6.2. or 9.6.3.

9.6.5. Subject to the provisions of Section 9.7., each Lender shall have the right at any time to furnish one or more potential assignees or participants with any information concerning the Borrower and the Guarantor that has been supplied by the Borrower to any Lender Party. The Borrower shall supply all reasonably requested information and execute and deliver all such instruments and take all such further action (including, in the case of an Assignment, the execution and delivery of replacement Notes) as the Agent may reasonably request in connection with any Assignment or Participation arrangement.

Section 9.7. Confidentiality.

Each Lender Party will maintain any confidential information that it may receive from the Borrower or the Guarantor pursuant to this Agreement confidential and shall not disclose such information to third parties without the prior consent of the Borrower, except for disclosure: (a) to legal counsel, accountants and other professional advisors to the Lender Party; (b) to regulatory officials having jurisdiction over the Lender Party; (c) required by Applicable Law or in connection with any legal proceeding; (d) to any other Lender Party; (e) to another Person in connection with a potential Assignment or Participation, provided such Person shall have agreed in writing to be subject to this Section 9.7.; and (g) of information that has been previously disclosed publicly without breach of this provision. Each Lender Party shall return, upon request by the Borrower made within a reasonable time after termination of this Agreement, any confidential material clearly and conspicuously marked "Confidential and Subject to Return" by the Borrower when furnished to such Lender Party, provided that the return of such material is not inconsistent with standard banking practice or, in the judgment of the Lender Party, otherwise disadvantageous to it.

Section 9.8. Set Off.

In addition to any rights now or hereafter granted under Applicable Law, upon and after any acceleration of the Maturity Date hereunder, each Lender Party is hereby irrevocably authorized by the Borrower, at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other indebtedness, in each case whether direct or indirect or contingent or matured or unmatured at any time held or owing by such Lender Party to or for the credit or the account of the Borrower, against and on account of the Obligations of the Borrower to such Lender Party under the Loan Documents to which the Borrower is a party, irrespective of whether or not such Lender Party shall have made any demand for payment and although such Obligations may be contingent and unmatured. Each Lender Party agrees to notify the Borrower promptly of any such set-off and the application made by such Lender Party, provided that the failure

to give such notice shall not affect the validity of such set-off and application.

Section 9.9. Changes in Accounting Principles.

If any changes in generally accepted accounting principles from those used in the preparation of the financial statements referred to in this Agreement hereafter result from by the promulgation of rules, regulations, pronouncements, or opinions of or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), or there shall occur any change in the Borrower's fiscal or tax years and, as a result of any such changes, there shall result a change in the method of calculating any of the financial covenants, negative covenants, standards or other terms or conditions found in this Agreement, then the parties hereto agree to enter into negotiations in order to amend such provisions so as to equitably reflect such changes with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such changes as if such changes had not been made.

Section 9.10. Survival of Agreements, Representations and Warranties.

All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement, the closing and the extensions of credit hereunder and shall continue until payment and performance of any and all Obligations. Any investigation at any time made by or on behalf

of Lender Parties shall not diminish the right of Lender Parties to rely thereon. Without limitation, the agreements and obligations of the Borrower contained in Sections 2.9., 2.10., 9.1. and 9.2., and the obligations of the Lender Parties under Section 8.21. shall survive the payment in full of all other Obligations.

Section 9.11. Execution in Counterparts.

This Agreement may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto. Faxed signatures to this Agreement shall be binding for all purposes.

Section 9.12. Complete Agreement.

This Agreement, together with the other Loan Documents, is intended by the parties as the final expression of their agreement regarding the subject matter hereof and as a complete and exclusive statement of the terms and conditions of such agreement.

Section 9.13. Inspections.

Lender shall have the right to enter upon the Office Park Property at all reasonable times to inspect the improvements thereon to verify information disclosed or required pursuant to this Agreement, provided that Lender shall not unreasonably disturb any tenants occupying such Office Park Property. Any inspection or review of the improvements by Lender is solely to determine whether Borrower is properly discharging its obligations to Lender and may not be relied upon by Borrower or by any third party as a representation or warranty of compliance with this Agreement or any other agreement. Lender owes no duty of care to Borrower or any third party to protect against, or to inform Borrower or any third party of, any negligent, faulty, inadequate or defective design or construction of the improvements as determined by Lender.

Section 9.14. Waiver of Right to Trial By Jury.

EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING UNDER THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY PRESENT OR FUTURE MODIFICATION THEREOF OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THE LOAN DOCUMENTS (AS NOW OR HEREAFTER MODIFIED) OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO. IN EACH CASE WHETHER SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION IS NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF ANY RIGHT THEY MIGHT OTHERWISE HAVE TO TRIAL BY JURY.

Section 9.15. Limitation of Liability.

In the event that any Lender is found to have breached its obligations

hereunder, then such Lender shall be severally and not jointly liable for all damages available under Applicable Law for breach of contract. Notwithstanding the foregoing sentence or anything in this Agreement to the contrary, no claim shall be made by the Borrower against any Lender Party or the Affiliates, directors, officers, employees or agents of any Lender Party for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or under any other theory of liability arising out of or related to the transactions contemplated by this Agreement, or any act, omission or event occurring in connection therewith; and the Borrower waives, releases and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

Borrower:

PS BUSINESS PARKS, L.P.
a California limited partnership

By: PS Business Parks, Inc.
a California corporation,
General Partner

By: /s/Jack Corrigan

Name: Jack Corrigan
Title: Vice President
Chief Financial Officer

THE BORROWER:

PS BUSINESS PARKS, L.P.
701 Western Avenue
Glendale, California 91201
Attention: Chief Financial Officer
Telephone: (818) 244-8080
Telecopier: (818) 244-9267

Agent:
Wells Fargo Bank, National Association

By: /s/ KIM SURCH

Name: Kim Surch

Title:Vice President

WELLS FARGO:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614
Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

Lender:
Wells Fargo Bank, National Association

By: /s/ KIM SURCH

Name: Kim Surch

Title: Vice President

WELLS FARGO:

Wells Fargo Bank, National Association
2030 Main Street, 8th Floor
Irvine, California 92614

Attention: Office Manager
Telephone: (949) 251-4300
Telecopier: (949) 851-9728

WELLS FARGO'S
LIBOR LENDING
OFFICE:

Wells Fargo Bank, National Association
2120 East Park Place, Suite 100
El Segundo, California 90245
Attention: Anne Colvin
Telephone: (310) 335-9458
Telecopier: (310) 615-1014

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0000866368

<NAME>	PS Business Parks, Inc.
<MULTIPLIER>	1
<CURRENCY>	U.S. $

<S>	<C>
<PERIOD-TYPE>	6-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	JUN-30-1998
<EXCHANGE-RATE>	1
<CASH>	36,355,000
<SECURITIES>	0
<RECEIVABLES>	0
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	36,355,000
<PP&E>	645,812,000
<DEPRECIATION>	(10,314,000)
<TOTAL-ASSETS>	675,766,000
<CURRENT-LIABILITIES>	11,256,000
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	236,000
<OTHER-SE>	483,159,000
<TOTAL-LIABILITY-AND-EQUITY>	675,766,000
<SALES>	0
<TOTAL-REVENUES>	36,699,000
<CGS>	0
<TOTAL-COSTS>	11,019,000
<OTHER-EXPENSES>	8,621,000
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	1,069,000
<INCOME-PRETAX>	11,376,000
<INCOME-TAX>	0
<INCOME-CONTINUING>	11,376,000
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	11,376,000
<EPS-PRIMARY>	0.76
<EPS-DILUTED>	0.76

</TABLE>