

ALERT



NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

SEC STAFF ISSUES GUIDANCE ON FFO REPORTING

On June 13, 2003, the SEC issued *Frequently Asked Questions Regarding the Use of Non-GAAP Financial Measures*. [CLICK HERE](#) to access the FAQ. The answers to these questions represent the views of the Division of Corporate Finance and are not Commission rules or regulations.

Question 7 of the FAQ addresses the SEC's reference to the term "funds from operations" in its recent rule concerning companies' use of non-GAAP financial measures. [CLICK HERE](#) to access the rule.

The specific question in the FAQ is:

What measure was contemplated by "funds from operations" in footnote 50 to the adopting release, which indicates that companies may use "funds from operations per share" in earnings releases and materials that are filed or furnished to the Commission, subject to the requirements of Regulation G and Item 10(e) of Regulation S-K?"

The complete answer is:

Footnote 50 contemplated only the measure "funds from operations" defined and clarified, as of January 1, 2000, by the National Association of Real Estate Investment Trusts. Footnote 50 did not contemplate measures that contain modifications from the measure "funds from operations" as so defined and clarified.

Accordingly, the use of such a modified measure, or a per share amount based on such a modified measure, in materials filed with the Commission would be subject to all of the provisions of Item 10(e) of Regulation S-K.

It is important to note that the definition and clarification of FFO as of January 1, 2000 did not reflect NAREIT's April 2002 clarification of the calculation of FFO as it relates to the inclusion of FFO from properties sold and reported as discontinued operations under GAAP. It also does not reflect NAREIT's July 2000 guidance which clarified that impairment write-downs of depreciable property should be excluded from FFO.

NAREIT staff is discussing this issue with SEC staff to determine the staff's thinking with respect to the January 1, 2000 date and will update members in a subsequent alert.

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