

DIVIDEND ACCOUNTING

How Dividends Are Calculated And Paid To You

The purpose of this CDx3 Special Report is to provide you with the next level of detail regarding how the dividends of CDx3 Preferred Stocks are calculated and paid to you.

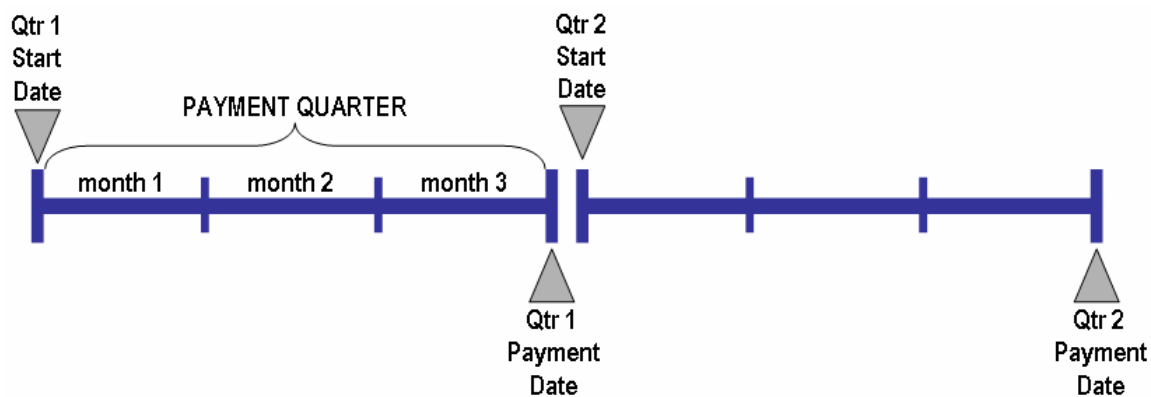
While none of the information here changes anything that you, as a CDx3 Investor, do or any of the content or conclusions of *Preferred Stock Investing*, it will help you understand how dividend accounting works.

Before diving into how the dividends of your CDx3 Preferred Stocks are calculated, it is important that we have a common understanding of the term “payment quarter.”

Determining The “Payment Quarter”

As illustrated below, a “payment quarter” lasts three months. The prospectus of a CDx3 Preferred Stock will specify the Payment Date when you can expect your dividend. The Payment Date is the end of the payment quarter.

The next payment quarter begins the day following each Payment Date.



Let’s take a look at how the prospectus of a CDx3 Preferred Stock defines a payment quarter.



HRP Properties Trust (NYSE: HRP) is a \$2.5 billion Real Estate Investment Trust (REIT) founded in 1986. As of September 30, 2005, HRP owned 434 commercial and other properties with approximately 54.1 million square feet located in 31 states and Washington, D.C.

On February 3, 2006 HRP introduced its Series C CDx3 Preferred Stock (HRP-C) which pays a 7.125% annual dividend.

Here is an example from the prospectus of HRP-C, of typical prospectus language concerning the dividend payment schedule:

“Beginning on May 15, 2006, distributions on the Series C Preferred Shares will be payable quarterly in arrears on the fifteenth day of each February, May, August and November or, if not a business day, the next business day.”

If you own HRP-C, you can expect dividend payments to show up in your brokerage account every February 15, May 15, August 15 and November 15. The “...in arrears...” reference means that HRP-C will pay you at the end of the payment quarter (in arrears), rather than at the beginning (in advance).

The prospectus for HRP-C also declares that the first dividend you will receive will be on May 15, 2006. This date is, therefore, the end-date of the first payment quarter. The start-date of this first payment quarter, three months earlier, is therefore February 16, 2006.

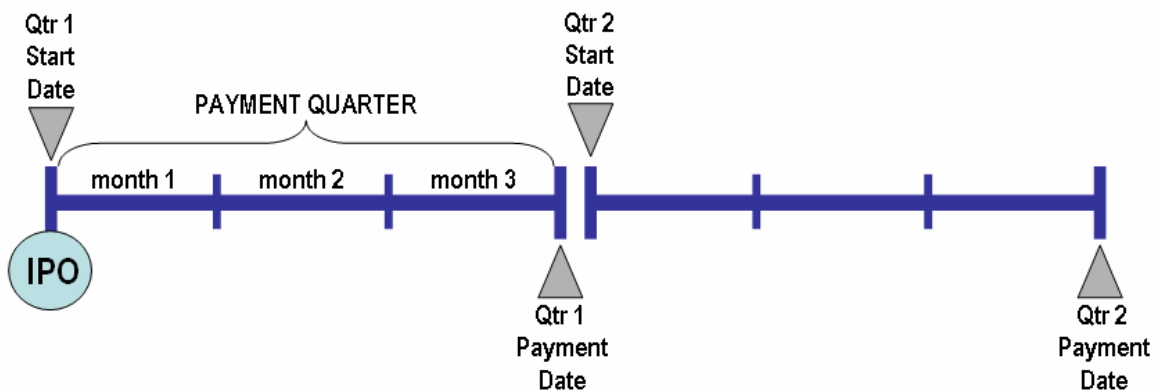
Now that we have a common understanding of what the term “payment quarter” means, and how you use the prospectus language to determine the start-date and end-date of the first payment quarter, let’s continue with our discussion of how your dividends are calculated.

There are three cases that we need to deal with when it comes to understanding how your quarterly dividend amount is calculated:

1. When the IPO Date is the same as the first payment quarter’s start-date.
2. When the IPO Date precedes the first payment quarter’s start-date; and
3. When the IPO Date follows the first payment quarter’s start-date.

IPO Date Equals First Payment Quarter's Start-Date

The below timeline shows a case where a CDx3 Preferred Stock's IPO Date is the same as the first payment quarter's start-date.



This is the simplest case but, as luck would have it, almost never happens. In the case where the IPO Date occurs on the start-date of the first payment quarter your dividend on the first Payment Date will be calculated using the following formula:

$$[\text{quarterly dividend amount}] = ([\text{dividend rate}] \times \$25.00) \text{ divided by } 4$$

Continuing with our HRP-C example, the [dividend rate] is 7.125% per year. Multiplying this by \$25.00 gives you an annual dividend amount of \$1.78 per share. Dividing this by 4 results in the quarterly dividend amount of \$0.445 per share.

Not only will you receive this amount for the first payment quarter, this is also the amount you will receive every quarter thereafter.

Now let's take the second case where the IPO Date occurs before the first day of the first payment quarter.