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PS BUSINESS PARKS INC/CA  
Form 8-K  
October 31, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 30, 2008

PS BUSINESS PARKS, INC.

(Exact name of registrant as specified in its charter)

California 1-10709  
(State or Other Jurisdiction of Incorporation) (Commission File Number)

95-4300881  
(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

N/A

(Former name or former address, if changed since last report)

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

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- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

### **Item 2.02. Results of Operations and Financial Conditions and Exhibits**

On October 30, 2008 PS Business Parks reported its results of operations and financial condition for the quarter ended September 30, 2008. The full text of the press release issued is furnished as Exhibit 99.1 to this Current Report on Form 8-K. The information in this Item 2.02 and Exhibit 99.1 are being furnished in accordance with General Instruction B.2. of Form 8-K and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

### **Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits

Exhibit 99.1: Press release dated October 30, 2008

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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 hereunto duly authorized.

PS BUSINESS PARKS, INC.

Date: October 30, 2008

By: /s/ Edward A. Stokx

Edward A. Stokx

Chief Financial Officer

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**News Release**

PS Business Parks, Inc.

701 Western Avenue

Glendale, CA 91201-2349

www.psbusinessparks.com

For Release: Immediately  
Date: October 30, 2008  
Contact: Edward A. Stokx

(818) 244-8080, Ext. 1649

**PS Business Parks, Inc. Reports Results for the Third Quarter Ended September 30, 2008**

**GLENDALE, California** PS Business Parks, Inc. (NYSE:PSB) reported operating results for the third quarter ended September 30, 2008.

Net income allocable to common shareholders for the three months ended September 30, 2008 was \$5.4 million or \$0.26 per diluted share on revenues of \$71.6 million compared to \$4.3 million or \$0.20 per diluted share on revenues of \$68.7 million for the same period in 2007. Net income allocable to common shareholders for the nine months ended September 30, 2008 was \$13.8 million or \$0.67 per diluted share on revenues of \$212.6 million compared to \$14.0 million or \$0.64 per diluted share on revenues of \$201.5 million for the same period in 2007.

Revenues for the three months ended September 30, 2008 increased \$2.9 million over the same period of 2007 primarily as a result of an increase of \$2.3 million from the Company's Same Park portfolio. Net income allocable to common shareholders for the three months ended September 30, 2008 increased \$1.1 million over the same period of 2007 primarily as a result of an increase in net operating income offset by a decrease in interest and other income.

Revenues for the nine months ended September 30, 2008 increased \$11.1 million over the same period of 2007 as a result of an increase of \$6.5 million from the Company's Same Park portfolio combined with an increase of \$4.6 million from acquired properties. Net income allocable to common shareholders for the nine months ended September 30, 2008 decreased \$150,000 over the same period of 2007 primarily as a result of a decrease in interest and other income and an increase in depreciation and amortization partially offset by an increase in net operating income.

**Supplemental Measures**

Funds from operations ( FFO ) allocable to common shareholders and unit holders for the three months ended September 30, 2008 and 2007 were \$32.0 million, or \$1.14 per diluted share, and \$31.0 million, or \$1.07 per diluted share, respectively. FFO allocable to common shareholders and unit holders for the nine months ended September 30, 2008 was \$94.0 million, or \$3.36 per diluted share, compared to \$90.6 million, or \$3.13 per diluted share, for the same period in 2007. The increase in FFO for the three and nine months ended September 30, 2008 over the same period of 2007 was primarily due to the increase in net operating income partially offset by the decrease in interest and other income as discussed above.

**Property Operations**

In order to evaluate the performance of the Company's overall portfolio over two comparable periods, management analyzes the operating performance of a consistent group of properties owned and operated throughout both periods (herein referred to as Same Park ). Operating properties that the Company acquired subsequent to January 1, 2007 are referred to as Non-Same Park. For the three and nine months ended September 30, 2008 and 2007, the Same Park portfolio constitutes 18.7 million rentable square feet, which includes all assets the Company owned and operated from January 1, 2007 through September 30, 2008 and represents approximately 95.5% of the total square footage of the Company's portfolio as of September 30, 2008.

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The Company's property operations account for substantially all of the net operating income earned by the Company. The following table presents the operating results of the Company's properties for the three and nine months ended September 30, 2008 and 2007 in addition to other income and expense items affecting income before minority interests (unaudited, in thousands, except per square foot amounts):

|  | For the Three Months Ended<br>September 30, |                |         | For the Nine Months Ended<br>September 30, |                |         |
|--|---|----------------|---------|--|----------------|---------|
|  | 2008  | 2007           | Change  | 2008                                       | 2007           | Change  |
| <b>Rental income:</b>  |   |                |         |  |                |         |
| Same Park (18.7 million rentable square feet) <sup>(1)</sup> | \$ 67,671                                   | \$ 65,388      | 3.5%    | \$ 200,705                                 | \$ 194,210     | 3.3%    |
| Non-Same Park (870,000 rentable square feet) <sup>(2)</sup>  | <u>3,793</u>                                | <u>3,142</u>   | 20.7%   | <u>11,316</u>                              | <u>6,719</u>   | 68.4%   |
| Total rental income  | <u>71,464</u>                               | <u>68,530</u>  | 4.3%    | <u>212,021</u>                             | <u>200,929</u> | 5.5%    |
| <b>Cost of operations:</b>                                   |   |                |         |  |                |         |
| Same Park  | 21,493                                      | 20,104         | 6.9%    | 63,499                                     | 60,527         | 4.9%    |
| Non-Same Park  | <u>1,098</u>                                | <u>1,100</u>   | (0.2%)  | <u>3,521</u>                               | <u>2,138</u>   | 64.7%   |
| Total cost of operations                                     | <u>22,591</u>                               | <u>21,204</u>  | 6.5%    | <u>67,020</u>                              | <u>62,665</u>  | 6.9%    |
| <b>Net operating income <sup>(3)</sup>:</b>                  |   |                |         |  |                |         |
| Same Park  | 46,178                                      | 45,284         | 2.0%    | 137,206                                    | 133,683        | 2.6%    |
| Non-Same Park  | <u>2,695</u>                                | <u>2,042</u>   | 32.0%   | <u>7,795</u>                               | <u>4,581</u>   | 70.2%   |
| Total net operating income                                   | <u>48,873</u>                               | <u>47,326</u>  | 3.3%    | <u>145,001</u>                             | <u>138,264</u> | 4.9%    |
| <b>Other income and expenses:</b>                            |   |                |         |  |                |         |
| Facility management fees                                     | 178   | 177            | 0.6%    | 550  | 542            | 1.5%    |
| Interest and other income                                    | 404   | 1,151          | (64.9%) | 1,014                                      | 4,141          | (75.5%) |
| Interest expense   | (988)                                       | (1,009)        | (2.1%)  | (2,971)                                    | (3,128)        | (5.0%)  |
| Depreciation and amortization                                | (24,703)                                    | (25,285)       | (2.3%)  | (75,270)                                   | (71,841)       | 4.8%    |
| General and administrative                                   | <u>(1,950)</u>                              | <u>(2,124)</u> | (8.2%)  | <u>(6,081)</u>                             | <u>(5,938)</u> | 2.4%    |
| Income before minority interests                             | \$ 21,814                                   | \$ 20,236      | 7.8%    | \$ 62,243                                  | \$ 62,040      | 0.3%    |
| Same Park gross margin <sup>(4)</sup>                        | 68.2%                                       | 69.3%          | (1.6%)  | 68.4%                                      | 68.8%          | (0.6%)  |
| <b>Same Park weighted average for the period:</b>            |   |                |         |  |                |         |
| Occupancy  | 93.9%                                       | 93.5%          | 0.4%    | 94.0%                                      | 93.4%          | 0.6%    |
| Annualized realized rent per square foot <sup>(5)</sup>      | \$ 15.43                                    | \$ 14.97       | 3.1%    | \$ 15.24                                   | \$ 14.84       | 2.7%    |

(1) See above for a definition of Same Park.

(2) Represents operating properties owned by the Company as of September 30, 2008 not included in Same Park.

(3) Net operating income ( NOI ) is an important measurement in the commercial real estate industry for determining the value of the real estate generating the NOI. The Company's calculation of NOI may not be comparable to those of other companies and should not be used as an alternative to measures of performance in accordance with generally accepted accounting principles ( GAAP ).

(4) Same Park gross margin is computed by dividing NOI by rental income.

(5) Same Park realized rent per square foot represents the annualized revenues earned per occupied square foot.

### **Financial Condition**

The following are key financial ratios with respect to the Company's leverage at and for the three months ended September 30, 2008:

|   |                 |
|---|-----------------|
| Ratio of FFO to fixed charges <sup>(1)</sup>  | 48.1x           |
| Ratio of FFO to fixed charges and preferred distributions <sup>(1)</sup>  | 3.1x            |
| Debt and preferred equity to total market capitalization (based on common stock price of \$57.60 at September 30, 2008) | 35.2%           |
| Available under line of credit at September 30, 2008  | \$100.0 million |

(1) Fixed charges include interest expense of \$988,000.

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### Distributions Declared

The Board of Directors declared a quarterly dividend of \$0.44 per common share on October 30, 2008. Distributions were also declared on the various series of depositary shares, each representing 1/1,000 of a share of preferred stock listed below. Distributions are payable December 31, 2008 to shareholders of record on December 15, 2008.

| <u>Series</u> | <u>Dividend Rate</u> | <u>Dividend Declared</u> |
|---------------|----------------------|--------------------------|
| Series H      | 7.000%               | \$ 0.437500              |
| Series I      | 6.875%               | \$ 0.429688              |
| Series K      | 7.950%               | \$ 0.496875              |
| Series L      | 7.600%               | \$ 0.475000              |
| Series M      | 7.200%               | \$ 0.450000              |
| Series O      | 7.375%               | \$ 0.460938              |
| Series P      | 6.700%               | \$ 0.418750              |

### Company Information

PS Business Parks, Inc., a member of the S&P SmallCap 600, is a self-advised and self-managed equity real estate investment trust ( REIT ) that acquires, develops, owns and operates commercial properties, primarily flex, multi-tenant office and industrial space. The Company defines flex space as buildings that are configured with a combination of office and warehouse space and can be designed to fit a number of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space). As of September 30, 2008, PSB wholly owned approximately 19.6 million rentable square feet with 3,850 customers located in eight states, concentrated in California (5.8 million sq. ft.), Florida (3.6 million sq. ft.), Virginia (3.0 million sq. ft.), Texas (2.9 million sq. ft.), Maryland (1.8 million sq. ft.), Oregon (1.3 million sq. ft.), Arizona (0.7 million sq. ft.) and Washington (0.5 million sq. ft.).

### Forward-Looking Statements

When used within this press release, the words may, believes, anticipates, plans, expects, seeks, estimates, intends and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results and performance of the Company to be materially different from those expressed or implied in the forward-looking statements. Such factors include the impact of competition from new and existing commercial facilities which could impact rents and occupancy levels at the Company's facilities; the Company's ability to evaluate, finance and integrate acquired and developed properties into the Company's existing operations; the Company's ability to effectively compete in the markets that it does business in; the impact of the regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing REITs; the impact of general economic conditions upon rental rates and occupancy levels at the Company's facilities; the availability of permanent capital at attractive rates, the outlook and actions of Rating Agencies and risks detailed from time to time in the Company's SEC reports, including quarterly reports on Form 10-Q, reports on Form 8-K and annual reports on Form 10-K.

Additional information about PS Business Parks, Inc., including more financial analysis of the third quarter operating results, is available on the Internet. The Company's website is [www.psbusinessparks.com](http://www.psbusinessparks.com).

A conference call is scheduled for Friday, October 31, 2008, at 10:00 a.m. (PDT) to discuss the third quarter results. The toll free number is 1-800-399-4409; the conference ID is 68143761. The call will also be available via a live webcast on the Company's website. A replay of the conference call will be available through November 7, 2008 at 1-800-642-1687. A replay of the conference call will also be available on the Company's website.

Additional financial data attached.

## PS BUSINESS PARKS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

|  | September 30,<br><u>2008</u><br>(Unaudited) | December 31,<br><u>2007</u> |
|--|---|-----------------------------|
| <b>ASSETS</b>  |   |                             |
| Cash and cash equivalents  | \$ 52,068                                   | \$ 35,041                   |
| Real estate facilities, at cost:   |   |                             |
| Land   | 494,849                                     | 494,849                     |
| Buildings and equipment  | <u>1,511,549</u>                            | <u>1,484,049</u>            |
|  | 2,006,398                                   | 1,978,898                   |
| Accumulated depreciation   | <u>(613,642)</u>                            | <u>(539,857)</u>            |
|  | 1,392,756                                   | 1,439,041                   |
| Land held for development  | <u>7,869</u>                                | <u>7,869</u>                |
|  | 1,400,625                                   | 1,446,910                   |
| Rent receivable  | 1,699                                       | 2,240                       |
| Deferred rent receivable   | 22,199                                      | 21,927                      |
| Other assets   | <u>9,014</u>                                | <u>10,465</u>               |
| Total assets   | \$ 1,485,605                                | \$ 1,516,583                |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |   |                             |
| Accrued and other liabilities  | \$ 54,404                                   | \$ 51,058                   |
| Mortgage notes payable   | <u>59,666</u>                               | <u>60,725</u>               |
| Total liabilities  | 114,070                                     | 111,783                     |
| Minority interests:  |   |                             |
| Preferred units  | 94,750                                      | 94,750                      |
| Common units   | 147,499                                     | 154,470                     |
| Commitments and contingencies  |   |                             |
| Shareholders' equity:  |   |                             |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized,<br>28,650 shares issued and outstanding at September 30, 2008 and<br>December 31, 2007                                | 716,250                                     | 716,250                     |
| Common stock, \$0.01 par value, 100,000,000 shares authorized,<br>20,456,810 and 20,777,219 shares issued and outstanding at<br>September 30, 2008 and December 31, 2007, respectively | 204   | 207                         |
| Paid-in capital  | 358,130                                     | 371,267                     |
| Cumulative net income  | 604,159                                     | 552,069                     |
| Cumulative distributions   | <u>(549,457)</u>                            | <u>(484,213)</u>            |
| Total shareholders' equity   | <u>1,129,286</u>                            | <u>1,155,580</u>            |
| Total liabilities and shareholders' equity   | \$ 1,485,605                                | \$ 1,516,583                |



## PS BUSINESS PARKS, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, in thousands, except per share amounts)

|   | For the Three Months       |                | For the Nine Months        |                |
|---|----------------------------|----------------|----------------------------|----------------|
|   | <u>Ended September 30,</u> |                | <u>Ended September 30,</u> |                |
|   | <u>2008</u>                | <u>2007</u>    | <u>2008</u>                | <u>2007</u>    |
| Revenues:                                       |                            |                |                            |                |
| Rental income                                   | \$ 71,464                  | \$ 68,530      | \$ 212,021                 | \$ 200,929     |
| Facility management fees                        | <u>178</u>                 | <u>177</u>     | <u>550</u>                 | <u>542</u>     |
| Total operating revenues                        | <u>71,642</u>              | <u>68,707</u>  | <u>212,571</u>             | <u>201,471</u> |
| Expenses:                                       |                            |                |                            |                |
| Cost of operations                              | 22,591                     | 21,204         | 67,020                     | 62,665         |
| Depreciation and amortization                   | 24,703                     | 25,285         | 75,270                     | 71,841         |
| General and administrative                      | <u>1,950</u>               | <u>2,124</u>   | <u>6,081</u>               | <u>5,938</u>   |
| Total operating expenses                        | <u>49,244</u>              | <u>48,613</u>  | <u>148,371</u>             | <u>140,444</u> |
| Other income and expenses:                      |                            |                |                            |                |
| Interest and other income                       | 404                        | 1,151          | 1,014                      | 4,141          |
| Interest expense                                | <u>(988)</u>               | <u>(1,009)</u> | <u>(2,971)</u>             | <u>(3,128)</u> |
| Total other income and expenses                 | <u>(584)</u>               | <u>142</u>     | <u>(1,957)</u>             | <u>1,013</u>   |
| Income before minority interests                | <u>21,814</u>              | <u>20,236</u>  | <u>62,243</u>              | <u>62,040</u>  |
| Minority interests:                             |                            |                |                            |                |
| Minority interest in income preferred units     | (1,752)                    | (1,752)        | (5,256)                    | (5,103)        |
| Minority interest in income common units        | <u>(1,910)</u>             | <u>(1,461)</u> | <u>(4,897)</u>             | <u>(4,785)</u> |
| Total minority interests                        | <u>(3,662)</u>             | <u>(3,213)</u> | <u>(10,153)</u>            | <u>(9,888)</u> |
| Net income                                      | <u>18,152</u>              | <u>17,023</u>  | <u>52,090</u>              | <u>52,152</u>  |
| Net income allocable to preferred shareholders: |                            |                |                            |                |
| Preferred stock distributions                   | <u>12,756</u>              | <u>12,756</u>  | <u>38,269</u>              | <u>38,181</u>  |
| Net income allocable to common shareholders     | \$ 5,396                   | \$ 4,267       | \$ 13,821                  | \$ 13,971      |
| Net income per common share:                    |                            |                |                            |                |
| Basic   | \$ 0.26                    | \$ 0.20        | \$ 0.68                    | \$ 0.65        |
| Diluted   | \$ 0.26                    | \$ 0.20        | \$ 0.67                    | \$ 0.64        |
| Weighted average common shares outstanding:     |                            |                |                            |                |
| Basic   | 20,448                     | 21,345         | 20,438                     | 21,332         |
| Diluted   | 20,690                     | 21,616         | 20,674                     | 21,670         |

**PS BUSINESS PARKS, INC.**
**Computation of Funds from Operations ( FFO ) and Funds Available for Distribution ( FAD )**

(Unaudited, in thousands, except per share amounts)

|  | For the Three Months       |              | For the Nine Months        |              |
|--|----------------------------|--------------|----------------------------|--------------|
|  | <u>Ended September 30,</u> |              | <u>Ended September 30,</u> |              |
|  | <u>2008</u>                | <u>2007</u>  | <u>2008</u>                | <u>2007</u>  |
| <b><u>Computation of Diluted Funds From Operations</u></b>   |                            |              |                            |              |
| <b><u>per Common Share ( FFO<sup>(1)</sup>)</u></b>  |                            |              |                            |              |
| Net income allocable to common shareholders  | \$ 5,396                   | \$ 4,267     | \$ 13,821                  | \$ 13,971    |
| Adjustments:   |                            |              |                            |              |
| Depreciation and amortization  | 24,703                     | 25,285       | 75,270                     | 71,841       |
| Minority interest in income common units   | <u>1,910</u>               | <u>1,461</u> | <u>4,897</u>               | <u>4,785</u> |
| FFO allocable to common shareholders/unit holders  | \$ 32,009                  | \$ 31,013    | \$ 93,988                  | \$ 90,597    |
| Weighted average common shares outstanding   | 20,448                     | 21,345       | 20,438                     | 21,332       |
| Weighted average common OP units outstanding   | 7,305                      | 7,305        | 7,305                      | 7,305        |
| Weighted average common stock equivalents outstanding  | <u>242</u>                 | <u>271</u>   | <u>236</u>                 | <u>338</u>   |
| Weighted average common shares and OP units for purposes of computing fully-diluted FFO per common share | 27,995                     | 28,921       | 27,979                     | 28,975       |
| Diluted FFO per common share equivalent  | \$ 1.14                    | \$ 1.07      | \$ 3.36                    | \$ 3.13      |
| <b><u>Computation of Funds Available for Distribution ( FAD<sup>(2)</sup>)</u></b>                       |                            |              |                            |              |
| FFO allocable to common shareholders/unit holders  | \$ 32,009                  | \$ 31,013    | \$ 93,988                  | \$ 90,597    |
| Adjustments:   |                            |              |                            |              |
| Recurring capital improvements   | (2,356)                    | (5,646)      | (7,306)                    | (10,537)     |
| Tenant improvements  | (5,217)                    | (4,308)      | (14,871)                   | (11,809)     |
| Lease commissions  | (863)                      | (1,365)      | (5,097)                    | (3,777)      |
| Straight-line rent   | (355)                      | (230)        | (272)                      | (489)        |
| Stock compensation expense   | 1,027                      | 1,042        | 3,057                      | 2,746        |
| In-place lease adjustment  | (49)                       | (44)         | (145)                      | (53)         |
| Lease incentives net of tenant improvement reimbursements  | <u>(79)</u>                | <u>(15)</u>  | <u>(148)</u>               | <u>96</u>    |
| FAD  | \$ 24,117                  | \$ 20,447    | \$ 69,206                  | \$ 66,774    |
| Distributions to common shareholders/unit holders  | \$ 12,214                  | \$ 12,607    | \$ 36,617                  | \$ 33,511    |
| Distribution payout ratio  | 50.6%                      | 61.7%        | 52.9%                      | 50.2%        |

- (1) Funds From Operations ( FFO ) is computed in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts ( NAREIT ). The White Paper defines FFO as net income, computed in accordance with GAAP, before depreciation, amortization, minority interest in income, gains or losses on asset dispositions and extraordinary items. FFO should be analyzed in conjunction with net income. However, FFO should not be viewed as a substitute for net income as a measure of operating performance or liquidity as it does not reflect depreciation and amortization costs or the level of capital expenditure and leasing costs necessary to maintain the operating performance of the Company's properties, which are significant economic costs and could materially impact the Company's results from operations. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other real estate companies.
- (2) Funds available for distribution ( FAD ) is computed by adjusting consolidated FFO for recurring capital improvements, which the Company defines as those costs incurred to maintain the assets' value, tenant improvements, lease commissions, straight-line rent, stock compensation expense, impairment charges, amortization of lease incentives and tenant improvement reimbursements, in-place lease adjustment and the impact of Emerging Issues Task Force ( EITF ) Topic D-42. Like FFO, the Company considers FAD to be a useful measure for investors to evaluate the operations and cash flows of a REIT. FAD does not

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represent net income or cash flow from operations as defined by GAAP.