

PS BUSINESS PARKS INC/CA  
Form 8-K  
October 31, 2006

**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, 2006

**PS BUSINESS PARKS, INC.**

(Exact name of registrant as specified in its charter)

California  
(State or Other Jurisdiction  
of Incorporation)

1-10709  
(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)
- 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))

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**Item 2.02. Results of Operations and Financial Condition and Exhibits**

On October 30, 2006, the Company reported results for the third quarter ended September 30, 2006. The full text of the press release issued in connection with the announcement is furnished as Exhibit 99.1 to this Current Report on Form 8-K. The information in this Form 8-K and the Exhibit attached hereto shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934

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(the Exchange Act ) or otherwise subject to the liabilities of that section, nor shall it 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

(c) Exhibits

The following exhibit relating to Item 7.01 shall be deemed to be furnished, and not filed:

99.1 Press release dated October 30, 2006

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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, 2006

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, 2006  
Contact: Mr. Edward A. Stokx  
(818) 244-8080, Ext. 1649

### PS Business Parks, Inc. Reports Results for the Third Quarter Ended September 30, 2006

**GLENDALE, California** PS Business Parks, Inc. (AMEX:PSB) reported operating results for the three and nine months ended September 30, 2006.

Net income allocable to common shareholders for the three months ended September 30, 2006 was \$3.5 million or \$0.16 per diluted share on revenues of \$61.8 million compared to \$14.3 million or \$0.65 per diluted share on revenues of \$54.8 million for the same period in 2005. Net income allocable to common shareholders for the nine months ended September 30, 2006 was \$12.9 million or \$0.60 per diluted share on revenues of \$180.1 million compared to \$27.4 million or \$1.24 per diluted share on revenues of \$164.2 million for the same period in 2005.

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Revenues increased \$7.0 million for the three months ended September 30, 2006 primarily as a result of \$4.7 million from acquired properties and \$2.4 million from improved occupancy and rental rates within the Company's existing portfolio. Net income allocable to common shareholders for the three months ended September 30, 2006 decreased over the same period of 2005 by \$10.8 million or \$0.49 per diluted share primarily as a result of a decrease of \$10.4 million in income from discontinued operations.

Revenues increased \$15.8 million for the nine months ended September 30, 2006 primarily as a result of \$9.9 million from acquired properties and \$5.9 million from improved occupancy and rental rates within the Company's existing portfolio. Net income allocable to common shareholders for the nine months ended September 30, 2006 decreased from the same period of 2005 by \$14.4 million or \$0.64 per diluted share primarily as a result of a decrease of \$12.9 million in income from discontinued operations and an increase of \$2.7 million in non-cash distributions associated with preferred equity redemptions.

### Supplemental Measures

Funds from operations ( FFO ) allocable to common shareholders and unit holders for the three months ended September 30, 2006 and 2005 were \$26.8 million, or \$0.93 per diluted share, and \$25.8 million, or \$0.88 per diluted share, respectively. FFO allocable to common shareholders and unit holders for the nine months ended September 30, 2006 was \$78.8 million, or \$2.72 per diluted share, compared to \$77.4 million, or \$2.64 per diluted share, for the same period in 2005. The increase in FFO for the three months ended September 30, 2006 over the same period of 2005 was primarily due to net operating income from acquired properties partially offset by an increase in non-cash distributions associated with preferred equity redemptions. The increase in FFO for the nine months ended September 30, 2006 over the same period of 2005 was primarily due to net operating income from acquired properties and a payment received from a former tenant in connection with a bankruptcy settlement of \$1.8 million partially offset by an increase in non-cash distributions associated with preferred equity redemptions. Gains from the disposition of real estate are excluded from the computation of FFO.

The following table summarizes the impact of the implementation of the SEC's clarification of EITF Topic D-42 on the Company's FFO per common shareholders and unit holders for the three and nine months ended September 30, 2006 and 2005:

	For the Three Months Ended September 30,		For the Nine Mo September	
	2006	2005	2006	2005
FFO per common share, before adjustments.....	\$ 0.98	\$ 0.88	\$ 2.82	\$ 2.64
Application of EITF Topic D-42.....	(0.05)	--	(0.10)	--
FFO per common share, as reported.....	\$ 0.93	\$ 0.88	\$ 2.72	\$ 2.64

### 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, 2005 are referred to as Other Facilities. For the three and nine months ended September 30, 2006 and 2005, the Same Park portfolio constitutes 17.3 million net rentable square feet, which includes all assets included in continuing operations the Company owned and operated from January 1, 2005 through September 30, 2006. As of September 30, 2006, the Same Park portfolio represents approximately 95% of the total square footage of the Company's portfolio.

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, 2006 in addition to other income and expense items affecting income from continuing operations (unaudited, in thousands, except per square foot amounts):

	For the Three Months Ended September 30,			
	2006	2005	Change	
Rental income:				

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Same Park (17.3 million net rentable square feet (1))...	\$ 57,041	\$ 54,654	4.4%	\$ 16
Other Facilities (960,000 net rentable square feet (2)).	4,654	-	100.0%	
Total rental income.....	61,695	54,654	12.9%	17
Cost of operations:				
Same Park.....	17,608	16,182	8.8%	5
Other Facilities.....	1,605	-	100.0%	
Total cost of operations.....	19,213	16,182	18.7%	5
Net operating income (3):				
Same Park.....	39,433	38,472	2.5%	11
Other Facilities.....	3,049	-	100.0%	
Total net operating income.....	42,482	38,472	10.4%	12
Other income and expenses:				
Facility management fees.....	147	145	1.4%	
Interest and other income.....	1,884	1,400	34.6%	
Interest expense.....	(628)	(304)	106.6%	(
Depreciation and amortization.....	(22,184)	(19,291)	15.0%	(6
General and administrative.....	(1,742)	(1,499)	16.2%	(
Income from continuing operations before minority interest.....				
	\$ 19,959	\$ 18,923	5.5%	\$ 59
Same Park gross margin (4).....	69.1%	70.4%	(1.8%)	6
Same Park weighted average for the period:				
Occupancy.....	94.1%	92.5%	1.7%	9
Annualized realized rent per square foot (5).....	\$ 14.10	\$ 13.69	3.0%	\$ 14

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

(2) Represents operating properties owned by the Company as of September 30, 2006 that are not in

(3) Net operating income ("NOI") is an important measurement in the commercial real estate industry of the real estate generating the NOI. The Company's calculation of NOI may not be comparable and should not be used as an alternative to measures of performance in accordance with general 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. Excluding the bankruptcy settlement of \$1.8 million, Same Park realized rent per square foot was \$13.91 for the nine months ended September 30, 2006.

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### Financial Condition

The following are key financial ratios with respect to the Company's leverage at and for the three months ended September 30, 2006.

Ratio of FFO to fixed charges (1).....	68.1x
Ratio of FFO to fixed charges and preferred distributions (1).....	2.9x
Debt and preferred equity to total market capitalization (based on common stock price of \$60.30 at September 30, 2006).....	30.3%
Available under line of credit at September 30, 2006.....	\$100.0 million

(1).Fixed charges include interest expense of \$628,000.

**Property Acquisitions**

On October 27, 2006, the Company acquired a 66,500 square foot multi-tenant industrial and flex park in San Jose, California, for \$8.4 million. The park, which consists of three single-story buildings, was 87.9% leased with 28 tenants at the time of acquisition.

**Stock Repurchase Program**

The Company's Board of Directors has authorized the repurchase, from time to time, of up to 4.5 million shares of the Company's common stock on the open market or in privately negotiated transactions. Since inception of the program through September 30, 2006, the Company has repurchased an aggregate of 3.3 million shares of common stock at an aggregate cost of approximately \$102.6 million (average cost of \$31.18 per share). During the nine months ended September 30, 2006, the Company repurchased 309,100 shares of common stock at a cost of approximately \$16.1 million. During the nine months ended September 30, 2005, the Company repurchased 123,100 shares of common stock at a cost of approximately \$5.4 million.

**Distributions Declared**

The Board of Directors declared a quarterly dividend of \$0.29 per common share on October 30, 2006. Distributions were also declared on the various series of depository shares, each representing 1/1,000 of a share of preferred stock, listed below. Distributions are payable December 29, 2006 to shareholders of record on December 14, 2006.

Series -----	Dividend Rate -----	Dividend Declared -----
Series F	8.750%	\$ 0.546875
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

**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, 2006, PSB wholly owned approximately 18.2 million net rentable square feet of commercial space with approximately 3,500 customers located in eight states, concentrated in California (5.5 million sq. ft.), Texas (2.8 million sq. ft.), Florida (3.2 million sq. ft.), Oregon (1.3 million sq. ft.), Virginia (2.9 million sq. ft.), Maryland (1.8 million sq. ft.) and Arizona (0.7 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.

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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 Tuesday, October 31, 2006, at 10:00 a.m. (PST) to discuss the third quarter results. The toll free number is 1-800-399-4409; the conference ID is 7236974. 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, 2006 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. SELECTED FINANCIAL DATA (Unaudited, in thousands)

	At September 30, 2006	At December 31, 2005
	-----	-----
Balance Sheet Data:		
Cash and cash equivalents.....	\$ 92,800	\$ 200,400
Properties held for disposition, net.....	\$ --	\$ 5,300
Real estate facilities, before accumulated depreciation.....	\$ 1,725,283	\$ 1,573,100
Total assets.....	\$ 1,442,588	\$ 1,463,600
Total debt.....	\$ 43,267	\$ 25,800
Minority interest - common units.....	\$ 165,694	\$ 169,400
Minority interest - preferred units.....	\$ 82,750	\$ 135,700
Perpetual preferred stock.....	\$ 622,500	\$ 593,300
Common shareholders' equity.....	\$ 483,020	\$ 500,100
Total common shares outstanding at period end.....	21,296	21,296
Total common shares outstanding at period end, assuming conversion of all Operating Partnership units into common stock.....	28,601	28,601

### PS BUSINESS PARKS, INC. CONSOLIDATED STATEMENTS OF INCOME (Unaudited, in thousands, except per share data)

	For the Three Months Ended September 30,		For the Three Months Ended September 30,
	2006	2005	2006
	-----	-----	-----
Revenues:			
Rental income.....	\$ 61,695	\$ 54,654	\$ 179,600
Facility management fees.....	147	145	440
Total operating revenues.....	61,842	54,799	180,040
Expenses:			
Cost of operations.....	19,213	16,182	55,350
Depreciation and amortization.....	22,184	19,291	63,720
General and administrative.....	1,742	1,499	5,260

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Total operating expenses.....	43,139	36,972	124,333
Other income and expenses:			
Interest and other income.....	1,884	1,400	5,453
Interest expense.....	(628)	(304)	(1,653)
Total other income and expenses.....	1,256	1,096	3,793
Income from continuing operations before minority interests.....	19,959	18,923	59,513
Minority interests in continuing operations:			
Minority interest in income-- preferred units.....			
Distributions to preferred unit holders.....	(2,672)	(2,460)	(8,233)
Redemption of preferred operating partnership units.....	(1,366)	--	(1,366)
Minority interest in income-- common units.....	(1,185)	(1,321)	(3,853)
Total minority interests in continuing operations.....	(5,223)	(3,781)	(13,453)
Income from continuing operations.....	14,736	15,142	46,063
Discontinued operations:			
Income (loss) from discontinued operations.....	--	1,244	(12,323)
Gain on disposition of real estate.....	--	12,599	2,323
Minority interest in income attributable to discontinued operations-- common units.....	--	(3,466)	(563)
Income from discontinued operations.....	--	10,377	1,643
Net income.....	14,736	25,519	47,703
Net income allocable to preferred shareholders:			
Preferred distributions.....	11,258	11,255	33,113
Redemption of preferred stock.....	--	--	1,653
Total preferred distributions.....	11,258	11,255	34,763
Net income allocable to common shareholders.....	\$ 3,478	\$ 14,264	\$ 12,933
Net income per common share-- basic:			
Continuing operations.....	\$ 0.16	\$ 0.18	\$ 0.53
Discontinued operations.....	\$ --	\$ 0.47	\$ 0.03
Net income.....	\$ 0.16	\$ 0.65	\$ 0.63
Net income per common share-- diluted:			
Continuing operations.....	\$ 0.16	\$ 0.18	\$ 0.53
Discontinued operations.....	\$ --	\$ 0.47	\$ 0.03
Net income.....	\$ 0.16	\$ 0.65	\$ 0.63
Weighted average common shares outstanding:			
Basic.....	21,290	21,858	21,343
Diluted.....	21,599	22,030	21,633

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 Ended  
 September 30,

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	2006	2005
Computation of Diluted Funds From Operations		
-----		
per Common Share ("FFO") (1):		
Net income allocable to common shareholders.....	\$ 3,478	\$ 14,264
Adjustments:		
Gain on disposition of real estate.....	--	(12,599)
Depreciation and amortization.....	22,184	19,318
Minority interest in income - common units.....	1,185	4,787
FFO allocable to common shareholders/unit holders.....	\$ 26,847	\$ 25,770
	=====	=====
Weighted average common shares outstanding.....	21,290	21,858
Weighted average common OP units outstanding.....	7,305	7,305
Weighted average common stock equivalents outstanding.....	309	172
	-----	-----
Weighted average common shares and OP units for purposes of computing fully-diluted FFO per common share.....	28,904	29,335
	=====	=====
Diluted FFO per common share equivalent.....	\$ 0.93	\$ 0.88
	=====	=====
Computation of Funds Available for Distribution ("FAD") (2):		
-----		
FFO allocable to common shareholders.....	\$ 26,847	\$ 25,770
Adjustments:		
Maintenance capital expenditures.....	(3,548)	(3,385)
Tenant improvements.....	(3,166)	(4,728)
Lease commissions.....	(1,261)	(1,757)
Straight-line rent.....	(817)	(1,017)
Stock-based compensation expense.....	762	315
In-place rents adjustment.....	60	38
Lease incentives net of tenant improvement reimbursements.....	124	22
Impact of EITF Topic D-42.....	1,366	--
FAD.....	\$ 20,367	\$ 15,258
	=====	=====
Distributions to common shareholders/unit holders.....	\$ 8,295	\$ 8,449
	=====	=====
Distribution payout ratio.....	40.7%	55.4%
	=====	=====

(1) Funds From Operations ("FFO") is computed in accordance with the White Paper on FFO approved by the Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). The WFFO as net income, computed in accordance with GAAP, before depreciation, amortization, minority interest, gains or losses on asset dispositions and extraordinary items. FFO should be analyzed with net income. However, FFO should not be viewed as a substitute for net income as a measure of performance or liquidity as it does not reflect depreciation and amortization costs or the expenditure and leasing costs necessary to maintain the operating performance of the Company, which are significant economic costs and could materially impact the Company's results. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO is not comparable to other real estate companies.



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- (2) Funds available for distribution ("FAD") is computed by deducting from consolidated FFO expenditures, which the Company defines as those costs incurred to maintain the asset improvements, capitalized leasing commissions and straight-line rent from FFO and a compensation expense, amortization of lease incentives, in-place rents adjustment and Topic D-42. Like FFO, the Company considers FAD to be a useful measure for investors operations and cash flows of a REIT. FAD does not represent net income or cash flow fr defined by GAAP.