

PS BUSINESS PARKS INC/CA

Form 10-Q

August 06, 2010

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2010**

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
(State or Other Jurisdiction
of Incorporation)

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**

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2010, the number of shares of the registrant's common stock, \$0.01 par value per share, outstanding was 24,602,613.

PS BUSINESS PARKS, INC.
INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated balance sheets as of June 30, 2010 (unaudited) and December 31, 2009</u>	3
<u>Consolidated statements of income (unaudited) for the three and six months ended June 30, 2010 and 2009</u>	4
<u>Consolidated statement of equity (unaudited) for the six months ended June 30, 2010</u>	5
<u>Consolidated statements of cash flows (unaudited) for the six months ended June 30, 2010 and 2009</u>	6
<u>Notes to consolidated financial statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	38
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 6. Exhibits</u>	40
<u>Exhibit 12</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

PS BUSINESS PARKS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 43,696	\$ 208,229
Real estate facilities, at cost:		
Land	507,531	493,709
Buildings and equipment	1,649,153	1,528,044
	2,156,684	2,021,753
Accumulated depreciation	(740,725)	(707,209)
	1,415,959	1,314,544
Property held for disposition, net		4,260
Land held for development	6,829	6,829
	1,422,788	1,325,633
Rent receivable	2,458	2,313
Deferred rent receivable	22,010	21,596
Other assets	10,782	7,051
Total assets	\$ 1,501,734	\$ 1,564,822
LIABILITIES AND EQUITY		
Accrued and other liabilities	\$ 49,937	\$ 46,298
Mortgage notes payable	52,207	52,887
Total liabilities	102,144	99,185
Commitments and contingencies		
Equity:		
PS Business Parks, Inc.'s shareholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, 22,877 and 25,042 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	571,921	626,046
Common stock, \$0.01 par value, 100,000,000 shares authorized, 24,600,560 and 24,399,509 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	245	243
Paid-in capital	556,240	548,393

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Cumulative net income	744,227	699,291
Cumulative distributions	(703,738)	(658,294)
Total PS Business Parks, Inc. s shareholders equity	1,168,895	1,215,679
Noncontrolling interests:		
Preferred units	53,418	73,418
Common units	177,277	176,540
Total noncontrolling interests	230,695	249,958
Total equity	1,399,590	1,465,637
Total liabilities and equity	\$ 1,501,734	\$ 1,564,822

See accompanying notes.

Table of Contents

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

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Rental income	\$ 69,878	\$ 67,375	\$ 137,010	\$ 136,507
Facility management fees	163	173	336	350
Total operating revenues	70,041	67,548	137,346	136,857
Expenses:				
Cost of operations	21,720	21,251	44,686	43,687
Depreciation and amortization	18,666	21,970	36,856	44,584
General and administrative	2,400	1,538	5,149	3,514
Total operating expenses	42,786	44,759	86,691	91,785
Other income and expenses:				
Interest and other income	91	68	200	247
Interest expense	(856)	(881)	(1,711)	(1,811)
Total other income and expenses	(765)	(813)	(1,511)	(1,564)
Income from continuing operations	26,490	21,976	49,144	43,508
Discontinued operations:				
Income from discontinued operations		176	34	343
Gain on sale of land and real estate facility		1,488	5,153	1,488
Total discontinued operations		1,664	5,187	1,831
Net income	\$ 26,490	\$ 23,640	\$ 54,331	\$ 45,339
Net income allocation:				
Net income allocable to noncontrolling interests:				
Noncontrolling interests common units	\$ 2,749	\$ 2,900	\$ 6,261	\$ 14,523
Noncontrolling interests preferred units	1,752	1,381	3,134	(5,333)
Total net income allocable to noncontrolling interests	4,501	4,281	9,395	9,190
Net income allocable to PS Business Parks, Inc.:				
Common shareholders	9,229	8,152	20,974	40,757
Preferred shareholders	12,723	11,155	23,878	(4,871)
Restricted stock unit holders	37	52	84	263

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Total net income allocable to PS Business Parks, Inc.	21,989	19,359	44,936	36,149
	\$ 26,490	\$ 23,640	\$ 54,331	\$ 45,339
Net income per common share basic:				
Continuing operations	\$ 0.38	\$ 0.34	\$ 0.69	\$ 1.92
Discontinued operations	\$	\$ 0.06	\$ 0.16	\$ 0.07
Net income	\$ 0.38	\$ 0.40	\$ 0.86	\$ 1.99
Net income per common share diluted:				
Continuing operations	\$ 0.37	\$ 0.34	\$ 0.69	\$ 1.91
Discontinued operations	\$	\$ 0.06	\$ 0.16	\$ 0.07
Net income	\$ 0.37	\$ 0.39	\$ 0.85	\$ 1.98
Weighted average common shares outstanding:				
Basic	24,524	20,531	24,469	20,501
Diluted	24,669	20,652	24,611	20,605

See accompanying notes.

Table of Contents

PS BUSINESS PARKS, INC.
CONSOLIDATED STATEMENT OF EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Unaudited, in thousands, except share data)

	Preferred Stock		Common Stock		Paid-in Capital	Cumulative Net Income	Cumulative Distributions	Total PS Business Parks, Inc. s Shareholder Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2009	25,042	\$ 626,046	24,399,509	\$ 243	\$ 548,393	\$ 699,291	\$ (658,294)	\$ 1,215,679	\$ 249,958	\$ 1,465,637
Redemption of preferred units					582			582	(20,582)	(20,000)
Redemption of preferred stock	(2,165)	(54,125)			1,854		(1,854)	(54,125)		(54,125)
Exercise of stock options			181,036	2	5,894			5,896		5,896
Stock compensation, net			20,015		421			421		421
Net income						44,936		44,936	9,395	54,331
Distributions:										
Preferred stock							(22,024)	(22,024)		(22,024)
Common stock							(21,566)	(21,566)		(21,566)
Noncontrolling interests									(8,980)	(8,980)
Adjustment to noncontrolling interests in underlying operating partnership					(904)			(904)	904	
Balances at June 30, 2010	22,877	\$ 571,921	24,600,560	\$ 245	\$ 556,240	\$ 744,227	\$ (703,738)	\$ 1,168,895	\$ 230,695	\$ 1,399,590

See accompanying notes.

Table of Contents

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

	For the Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 54,331	\$ 45,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	36,856	44,840
In-place lease adjustment	98	(161)
Lease incentives net of tenant improvement reimbursements	(265)	(174)
Amortization of mortgage premium	(140)	(134)
Gain on sale of land and real estate facility	(5,153)	(1,488)
Stock compensation	1,135	1,713
Decrease in receivables and other assets	587	2,019
Increase in accrued and other liabilities	1,467	1,332
 Total adjustments	 34,585	 47,947
 Net cash provided by operating activities	 88,916	 93,286
Cash flows from investing activities:		
Capital improvements to real estate facilities	(17,709)	(11,367)
Acquisition of real estate facilities	(123,582)	
Proceeds from sale of land and real estate facility	9,181	2,557
 Net cash used in investing activities	 (132,110)	 (8,810)
Cash flows from financing activities:		
Principal payments on mortgage notes payable	(540)	(527)
Repayment of mortgage note payable		(5,128)
Proceeds from the exercise of stock options	5,896	678
Shelf registration costs		(75)
Redemption of preferred stock	(54,125)	
Redemption of preferred units	(20,000)	
Repurchase of preferred stock		(50,199)
Repurchase of preferred units		(12,335)
Distributions paid to common shareholders	(21,566)	(18,044)
Distributions paid to preferred shareholders	(22,024)	(22,351)
Distributions paid to noncontrolling interests common units	(6,428)	(6,428)
Distributions paid to noncontrolling interests preferred units	(2,552)	(3,084)
 Net cash used in financing activities	 (121,339)	 (117,493)
 Net decrease in cash and cash equivalents	 (164,533)	 (33,017)
Cash and cash equivalents at the beginning of the period	208,229	55,015

Cash and cash equivalents at the end of the period	\$	43,696	\$	21,998
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See accompanying notes.

Table of Contents

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

	For the Six Months Ended June 30,	
	2010	2009
Supplemental schedule of non-cash investing and financing activities:		
Adjustment to noncontrolling interests in underlying operating partnership:		
Noncontrolling interests common units	\$ 904	\$ 9,645
Paid-in capital	\$ (904)	\$ (9,645)
Gain on repurchase of preferred equity:		
Preferred stock	\$	\$ (30,005)
Preferred units	\$	\$ (8,997)
Paid-in capital	\$	\$ 39,002
Effect of redemption/repurchase of preferred equity:		
Cumulative distributions	\$ (1,854)	\$ (2,783)
Noncontrolling interest common units	\$ (582)	\$ (580)
Paid-in capital	\$ 2,436	\$ 3,363
See accompanying notes.		

Table of Contents

PS BUSINESS PARKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

1. Organization and description of business

PS Business Parks, Inc. (PSB) was incorporated in the state of California in 1990. As of June 30, 2010, PSB owned 77.1% of the common partnership units of PS Business Parks, L.P. (the Operating Partnership). The remaining common partnership units are owned by Public Storage (PS). 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. PSB and the Operating Partnership are collectively referred to as the Company.

The Company is a fully-integrated, self-advised and self-managed real estate investment trust (REIT) that acquires, develops, owns and operates commercial properties, primarily multi-tenant flex, office and industrial space. As of June 30, 2010, the Company owned and operated 20.7 million rentable square feet of commercial space located in eight states. The Company also manages 1.4 million rentable square feet on behalf of PS and its affiliated entities.

References to the number of properties or square footage are unaudited and outside the scope of the Company's independent registered public accounting firm's review of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

2. Summary of significant accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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 GAAP for complete financial statements. 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, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The accompanying consolidated financial statements include the accounts of PSB and the Operating Partnership. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Noncontrolling Interests

The Company's noncontrolling interests are reported as a component of equity separate from the parent's equity. Purchases or sales of equity interests that do not result in a change in control are accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, is recorded at fair value with any gain or loss recognized in earnings.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Table of Contents

Allowance for doubtful accounts

The Company monitors the collectability of its receivable balances including the deferred rent receivable on an ongoing basis. Based on these reviews, the Company maintains an allowance for doubtful accounts for estimated losses resulting from the possible inability of tenants to make contractual rent payments to the Company. A provision for doubtful accounts is recorded during each period. The allowance for doubtful accounts, which represents the cumulative allowances less write-offs of uncollectible rent, is netted against tenant and other receivables on the consolidated balance sheets. Tenant receivables are net of an allowance for uncollectible accounts totaling \$400,000 at June 30, 2010 and December 31, 2009.

Financial instruments

The methods and assumptions used to estimate the fair value of financial instruments are described below. The Company has estimated the fair value of financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of market value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

The Company considers all highly liquid investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents. Due to the short period to maturity of the Company's cash and cash equivalents, accounts receivable, other assets and accrued and other liabilities, the carrying values as presented on the consolidated balance sheets are reasonable estimates of fair value. Based on borrowing rates currently available to the Company, the carrying amount of debt approximates fair value.

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents, which consist primarily of money market investments, are only invested in entities with an investment grade rating. Receivables are comprised of balances due from a large number of customers. Balances that the Company expects to become uncollectible are reserved for or written off.

Real estate facilities

Real estate facilities are recorded at cost. Costs related to the renovation or improvement of the properties are capitalized. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that are expected to benefit a period greater than two years and exceed \$2,000 are capitalized and depreciated over the estimated useful life. Buildings and equipment are depreciated on the straight-line method over the estimated useful lives, which are generally 30 and five years, respectively. Transaction costs in excess of \$1,000 for leases with terms greater than one year are capitalized and depreciated over their estimated useful lives. Transaction costs for leases of one year or less or less than \$1,000 are expensed as incurred.

Intangible assets/liabilities

Intangible assets and liabilities include above-market and below-market in-place lease values of acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market and below-market lease values (included in other assets and accrued liabilities in the accompanying consolidated balance sheets) are amortized to rental income.">

/s/ Hollings C. Renton

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Director

November 3, 2008

Hollings C. Renton

/s/ Peter S. Ringrose

Director

November 3, 2008

Peter S. Ringrose

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/s/ Stephen A. Sherwin

Director

November 3, 2008

Stephen A. Sherwin

EXHIBITS

**Exhibit
Number**

- 4.1 (1) Amended and Restated Certificate of Incorporation of the Registrant.
- 4.2 (2) Amended and Restated Bylaws of the Registrant.
- 4.3 (1) Specimen Common Stock Certificate.
- 5.1 Opinion of Cooley Godward Kronish LLP.
- 15.1 (5) Letter regarding unaudited interim financial information.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 23.2 Consent of Cooley Godward Kronish LLP. Reference is made to Exhibit 5.1.
- 24.1 Power of Attorney is contained on the signature pages to this Registration Statement.
- 99.1 (4) 2000 Non-Employee Directors Stock Option Plan, as amended and restated.
- 99.2 (3) 2000 Equity Incentive Plan, as amended and restated.

(1) Documents incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 24, 2003.

(2) Document incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 2, 2007.

(3) Document incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 30, 2008.

(4) Document incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 5, 2008.

(5) Document incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 4, 2008.

